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POSTWAR ECONOMIC POLICY AND PLANNING

HEARINGS

BEFORE THE

SPECIAL COMMITTEE ON POSTWAR ECONOMIC
POLICY AND PLANNING

HOUSE OF REPRESENTATIVES

SEVENTY-NINTH CONGRESS

FIRST AND SECOND SESSIONS

PURSUANT TO

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A RESOLUTION CREATING A SPECIAL COMMITTEE ON
POSTWAR ECONOMIC POLICY AND PLANNING

PART 7

APRIL 25; JUNE 20, 27; JULY 6; NOVEMBER 8, 9, 28;
DECEMBER 6, 12, 13, 14, 1945; JANUARY 31, 1946

THE USE OF WARTIME CONTROLS DURING THE
THE TRANSITIONAL PERIOD

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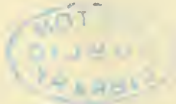
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POSTWAR ECONOMY POLICY AND PLANNING

WEDNESDAY, APRIL 25, 1945

HOUSE OF REPRESENTATIVES, SPECIAL COMMITTEE
ON POSTWAR ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met at 10 a. m. in room 1012, New House Office Building, Hon. William M. Colmer (chairman) presiding.

Present: Representatives Colmer (chairman), Voorhis, Murdock, Fogarty, Gifford, Reece, Welch, Wolcott, LeFevre, and Simpson.

Also present: M. B. Folsom, staff director; C. A. Sienkiewicz, A. D. H. Kaplan, and H. B. Arthur, consultants.

The CHAIRMAN. The committee will come to order.

As is generally understood, one of the primary purposes of this committee is to aid, assist, and abet in the reconversion program, so far as possible, to prevent any sharp set-backs to our economy as a result of the necessary reconversion program.

With that end in view, this committee started out, in the words of the late distinguished citizen of this country, to attack the first problems first.

We took up the question of setting up the Office of War Mobilization and Reconversion, the Surplus Property Board, and Contract Termination, all of which legislation was sponsored by this committee, and now that VE-day is approaching, we hope, naturally we are concerning ourselves with the immediate prospects should that day happen in Germany.

In line with this, some weeks ago your director, Mr. Folsom, and I went down and had a talk with Mr. James Byrnes. We discussed this whole program and asked Mr. Byrnes if there was any legislation that his Office needed, now that these matters I have referred to had been cared for. Mr. Byrnes did not think that any legislation was immediately necessary. So, we have this morning asked Mr. Krug, Chairman of the War Production Board, to come before us and discuss the general problem of reconversion from the standpoint of his position.

Mr. Krug, I want to say by way of introduction that this committee has a great deal of sympathy with the problems with which your organization is confronted. We realize that you, of necessity, are going to be confronted with many intricate problems and yet we, the committee, feel that it is our duty to keep in touch with this situation to insure as much as possible that there won't be any sharp set-backs to our economy insofar as our ability to prevent it is concerned.

So, we are glad to have you here with us this morning, and we will be glad for you to make any such statement as you see fit, after which, I am sure, we would like to ask you some questions.

STATEMENT OF J. A. KRUG, CHAIRMAN, WAR PRODUCTION BOARD

Mr. KRUG. Mr. Chairman, I am very appreciative for the chance to come before this committee. We know, of course, what the committee has done in the past and how helpful it has been to all Government agencies with the very difficult problems that they have had and which they have ahead of them now.

I don't have any formal statement to make, but I want to make clear right at the start two things. One, that the Government generally is in much better shape to beat the problems of changing from war to peace in this war than it was in the last war, because of many things that have been done to get the ways greased in advance.

I have in mind such things as contract termination and surplus property and the close coordination of military contract adjustments with the peacetime production fabric. I think all businessmen who have lived through the two wars will tell you that.

Your committee had a lot to do with getting those things set up.

The second point I want to make clear is that we in the War Production Board, despite the lack of talk, are in much better position now to meet the problems that confront us than we were last fall, and we were in pretty good shape last fall, as this committee knows.

What I have to say here today will be very informal and if any of the committee members want to interrupt to ask questions as I go along, that is fine with me, because in talking this way about a very complex problem I may not make all these points clear.

I know that the committee is primarily interested in the period which lies ahead. However, you can't understand those problems and what we must do to resolve them without having some picture of how we got where we are now, and I would like to take a few minutes of the committee's time to summarize again a picture, I think one that all of you know; but to give a perspective of what I have to say I would like to go over it again.

We started building up our war production in 1940 and we started out with virtually nothing. By the end of 1943 we built that production up from virtually nothing to \$5,600,000,000 a month, or a yearly rate of something over \$60,000,000,000 a year.

In order to do that, month by month, during that period the Government took positive, concrete action to direct our resources from nonessential things or less essential things, into war production. That was accomplished in a number of ways.

At the start we had just a simple priority system which told industry it had to take care of war work first. But as things became tighter and tighter the simple priority system was insufficient to do the job.

So we added this fabric of complicated orders which restricted production of nonessential or less essential things, which prescribed what materials you could use to produce such things—and even for essential things specified the number that could be produced in given periods of time.

Then for practically all of the basic raw materials used in the war effort we devised allocation systems that divided up the supply over all the essential uses, so that we had a balanced flow of copper, aluminum, steel, lead, zinc, et cetera, to the various war programs and the programs needed for supporting the war economy.

That system put a lot of strains on our economy, but it produced the desired results, and by the end of 1943 we had production built up to the level necessary to maintain an all-out war in Europe and in the Pacific, and about that level has been maintained since that time. It has fluctuated up and down.

Now, it is necessary to keep in mind a number of very important factors bearing on that development. In the first place, that war production was primarily in metal products. Over 80 percent of all the war program is tied up in things that are made up of metal and require metals fabrication to turn them in to war items. Ships, planes, guns, ammunition, are typical examples.

That meant that during that time we had to take our working force and direct it into the metal trades and into basic metal production. So, we have a great many people now who consider themselves machinists or fabricators and machine operators who at one time, perhaps, worked on the farm, in the woods, or in textile mills.

The other point to keep in mind is that during this same period we took over 12 million of our best men out of our working force and put them in the Army and Navy.

So we had to do this job of building up that production at a time when we were losing a large part of our most competent working force.

Now, during the early part of our build-up the strain was on the less essential, or nonessential items almost entirely. You will recall we stopped production of automobiles, refrigerators, and washing machines because we figured we had enough to last us for a while, and we needed that labor and materials and facilities for war work.

However, for a long time in 1943 we didn't have enough labor in nonessentials to do the entire job with the controls we had, and during that period we started to drain labor away from our essential raw materials and we lost almost continuously people from the textile industry, and from the lumber industry, and from steel, and from copper, and from lead—all the way across. For a while we got along by getting more and more production out of the remaining manpower. But starting late last year we began eating up our reserves in many of those fields.

That brings me to the present situation, and I am talking about the last 3 or 4 months. In terms of what we can do with our economy during the last 3 or 4 months, I think we have been just about at the top. Not only is that indicated by the dollar volume but also by the amount of materials that have been going into the total effort.

We have been straining our raw-materials supply almost to the breaking point. Steel and lead particularly have been in desperately short supply over the last 4 or 5 months. And the net effect is that many things you would like to do to get the economy ready for what it must face in future months have been deferred because of the pressing and constant demand on our industrial machine for what we had to do to keep the big push going in Europe and keep the expanding war rolling in the Pacific.

Now, with that picture covering the last several months, at the moment we are reaching the period where military production is being readjusted to the changing war picture. Last month we adjusted ammunition and, recently, tanks; and from day to day there will be other adjustments.

I think it is important for the committee to keep in mind that military production, by and large, is not adjusted to a day of victory in Europe. It is adjusted to what the military uses, and they have worked out a practical and, I think, workable, scheme for tying the procurement into what they use, taking into account stock levels and pipe lines and what not.

So, as the use of various military supplies changes at the battle-front, the changes are reflected back in procurement over a period of time. So whether or not the war in Europe ends, the change in the military picture in Europe begins to affect supply as the use of these various materials changes with the military development.

So, in short, we are at a period now when the military procurement will be adjusted. How much the adjustment will be varies in the opinion of the various agencies, but the concrete figures we have at the present time would indicate that over a period of 3 or 4 months there probably will be a cut of some 12 to 15 percent in military procurement, and that cut will build up so I think that within the next year or 15 months we will be down to perhaps 60 percent, or something like that, of the going rate of production, but of course we have experienced unexpected changes in military requirements in the past and we cannot be sure that we will not have other changes in the future which may change the whole picture.

I think most of that adjustment will take place independently of how long it takes to fight out this bitter war in Europe. Unfortunately, while we are making these adjustments in production, the war must go on over there, and I presume that thousands of our boys will lose their lives in this terribly bitter cleanup process.

However, I think the Army and the Army Air Forces have worked out ways of adjusting their production to whatever changes develop in the picture in Europe, and that reasonably promptly.

I think I would be less than frank if I didn't tell you they play it on the safe side, and I think you gentlemen would want them to play it on the safe side. We know that if production falls below what we need to maintain for the war effort at this stage of the game, it is going to be pretty hard to get it back up again.

On the labor picture I have some figures here that might be of interest to the committee if you don't already have them here. I wanted to bring the picture up to date as to where we stand in labor because I think that is one of the important problems we have to meet on the way out.

The figures indicate that, by and large, our expanded war effort, both the military and the production end, has been made possible through three principal factors.

First, a substantial increase in the total labor force that has come about from drawing more and more people into the available labor force, some of them becoming of age, and others going into war work for the first time.

We started out with a labor force at the end of 1940 of about 53,500,000. At the present time we have almost 63,500,000 in the labor force (including the armed forces) which is an increase of 10,000,000 during that period of time. Now, of that increase about 4,500,000 were in male labor and the other in female labor.

The Army during that period increased from less than 1,000,000 to 12,000,000, which is about the present number. That meant our

total labor force, despite that great increase, did not substantially decline during that period. It dropped from 52,700,000 at the end of 1940 to 51,400,000 in February of 1945.

Now, most of that was accomplished through a decrease in unemployment. The unemployment figures dropped from 6,300,000 to 700,000 which, in the view of the War Manpower Commission, is somewhat below the minimum for ordinary turn-over.

But, looking at the break-down you will find that munitions industries went up from 4,800,000 at the beginning of that period to 9,100,000 at the present time.

Agriculture during that period lost about 1,200,000 workers, a decline from 8,000,000 to 6,800,000.

Other manufacturing did not change materially during the period, but it did drop from the high point we built it up to in 1942 and 1943 of 7,700,000 down to about 6,800,000.

So, contrasting it with the peak we had in those industries at one time, we have lost about 1,000,000 men there, too.

The Federal Government has gone up from 200,000 to 1,600,000.

The other changes are not very important.

Now, I mentioned before that one of our difficulties in the way out will come from having drained people away from certain of our basic industries needed in peace time, to the war effort, and I think that is a factor your committee will want to bear in mind. We have lost these people in textiles and in lumber and in pulpwood production, and unless we get them back we can't hope to get back to a balanced economy, because we need those products for the things we made in peace time.

That means, in brief, that during this adjustment the time of procurement is cut back.

The people who are now working in shipyards, aircraft factories, and in other war work must, in part, find job opportunities in these basic industries in order to move their production up. We pulled the economy out of balance as we moved into the war by the predominance of this metal working and metal production.

But from here on out we have got to boost up the production of things like that—lumber, forest products, and textiles. All of those are very important in our peacetime economy.

Just as one example, you can't hope to have much construction without having lumber. We have barely enough lumber now to take care of our military needs and our most important civilian needs, and yet in 1940 we had 2,000,000 workers in construction. Now we have about 500,000. Now, those 1,500,000 workers can't go back into construction unless we get 125,000 people or so to go back into the woods to help with lumber.

So much for the present picture.

I think the distortions that have taken place in our economy during this war period are very important factors in deciding how rapidly we can cut loose our controls in going back to a mixed economy of all-out war production for the Pacific and using the balance of our reserves for whatever peacetime needs might be desirable.

I am rather reluctant to lay down policies without having the concrete implementation—all of them—ready at the same time. But as a guide for our people in working out the implementation we have tried to set up some policies that will help them work out the me-

chanics. I would like to cover these policies before I tell you about some of the specific things we have done to move forward with them.

The first, of course, is that we must devote our attention and see to it that Pacific war requirements are met and met on schedule.

The second is, furnish preferential assistance to the production of a limited number of nonwar products now so scarce as to endanger the war-supporting economy.

In short, we will certainly continue to help the railroads, and produce the farm machinery we need and repair parts for the farm machinery, and our entire transportation facilities, keep our oil industry at its maximum capacity. Things of that kind must still come first.

Third, through guiding the distribution of military procurement cut-backs and of continuing military procurement, and through other appropriate measures, assist, to the extent possible, the relief of particularly serious local unemployment. I will explain later what we are doing on that. I just want to put in a word of caution at this point.

I don't want you to think that any of these things can be done 100 percent. There is no device known to us that will cure the dislocations that will come as these adjustments are made.

Fourth, facilitate rapid reconversion through positive assistance for some equipment, construction, and long lead time materials.

Fifth, assist the most urgently needed nonwar construction. As you know, for 4 years now the criterion has been nothing except what was needed in the war effort can be built, and that has imposed a most serious hardship on certain facilities that ought to be built.

Sixth, provide a fair opportunity for small manufacturers, including veterans and new producers.

Seventh, consistent with these objectives, simplify and eliminate controls as quickly as possible.

Eighth, the progressive removal and relaxation of War Production Board controls does not affect such controls as other agencies will have to continue. In resuming or expanding civilian production, manufacturers remain subject to all applicable regulations of the Office of Price Administration, the War Manpower Commission, and other Federal agencies.

Now, I don't mean by that point that our controls are not interrelated to some extent; they are. In our work we have developed very close relationships with the other agencies that have parallel problems to the end that our own procedures will be closely coordinated with theirs.

Those are the basic policies. I am sure the committee will want to know what the War Production Board has done about implementing them.

In the first place, on securing and making certain that we maintain the Japanese war production we have had under way for some months the most intensive effort with industries that are involved in that phase of the job to make sure that they continue to carry out those programs. We feel quite certain that they can.

There is one great worry in the minds of all of us, and that is whether or not in some of these areas they can retain their labor in war work. Most manufacturers feel that they can.

In some areas where working conditions are unpleasant, where the community is war-swollen, there is concern about it. That is one of the problems that must be closely watched in any adjustment we make in opening up peace-time jobs.

In the second place, on the planned cut-backs of military procurement and production, we have set up what sounds like a rather elaborate organization, but is really, I think, a practicable and workable one, bringing together the military procurement agencies and the War Manpower Commission with our own group to look at all the major adjustments and make sure that first they are properly coordinated as between the military; in short, that the Army isn't cutting out a facility that the Navy is going to expand; that they aren't reducing facilities that one of the other services is pressing hard to expand.

There had been for some months early in the war lack of close liaison, and this committee has accomplished a lot in drawing that together.

This group, known as the Production Readjustment Committee, tries to make sure, to the extent it is possible with the objective of getting the production for the Japanese war, to cut the contracts in the tight labor areas and try to maintain them in the communities that have no other prospect for handling their people.

The War Manpower Commission is represented in this group and they take advantage of the knowledge of these cut-backs to let workers know, in areas where no other jobs are available, where new job opportunities exist in other areas. Mr. John D. Small, who is in charge of that group, is here this morning, and if the committee is interested in the details of how it operates, I would like to have him explain it to you in further detail.

I think, despite some creaks and groans, we are making some headway, and that it is better than at any time during the war.

The CHAIRMAN. If time permits, we will be glad to hear Mr. Small and give him an opportunity to testify.

Mr. KRUG. Three, we had a number of things that were put into effect last summer. In certain areas we have had to limit their operation, but they are still effective in areas where labor is available, and even in the tight labor areas where it can be done without interfering with the war work.

I have in mind the spot-authorization plan, the experimental model order which permits industry to develop new models, and the machine-tool and equipment order which, for a long period of months, permitted the placing and filling of unrated orders. We had to cut part of that out for several months starting late in January when the machine tools and equipment for our ammunition programs were so urgently needed. We couldn't have any interference with the war production.

But the spot-authorization plan still is in effect, and it also works in the No. 1 labor areas where the various claimant agencies are sure it will not interfere with their programs.

The fourth point is the aid to industry which converted to the war effort and has the problem of reconversion after the war effort.

I am afraid that the public press normally assumes that automobiles is the only industry affected. As a matter of fact, our studies cover 72 industries which converted in considerable part from their peace-

time production to war production, and will have certain problems in going back to peacetime output.

For those industries we have granted priority assistance on the bottleneck items they need for getting back to the minimum economic level of production. The reason we have restricted it to that at the present time is we have so little leeway in the picture at the moment that we thought it was better to give all of them minimum help rather than pick out a few and let them go to what they would like to have as their projected level of production.

I think I have some figures on the 72 industries that might be of interest to the committee. For these 72 the figures are something like this: Their present rate of production, on a quarterly basis, so as to give you some idea as to what segments of our productive economy they represent, is a little over \$3,000,000,000. If we took off all the restrictions and gave them everything they needed in the way of machine tools and new facilities, assuming some adjustment in their military contracts to permit it, they could get to a peacetime production of about \$3,358,000,000. Their minimum or break-even rate of production, in their judgment, is about \$1,200,000,000 of quarterly production.

Now, to get to this minimum rate of production these 72 industries would need a little over \$41,000,000 of new construction. You can see what a very limited amount it is in terms of the scope of business encompassed. They would need about \$61,000,000 of machine tools and equipment. Understand, these are not all the machine tools and equipment they need. These are what they must have from new supply to supplement what they have to get back to a minimum economic rate of production.

If they were to go to the all-out rate of production, which most of them would like to do at the earliest possible date, they would need about \$231,000,000 of new construction and about \$183,000,000 of machine tools and equipment. Now, it is on this minimum rate that we have given these industries positive help so that their long lead items can be scheduled and can be brought out at the earliest possible time.

Included in the 72 industries are a great many plants that can get started without anything. They are fortunately situated and their competitors have lost their tools during the war or have sold them or tied up their tools in war work and can't release them and have to get new tools if they are going to go into peacetime production.

In addition, as other measures that will be necessary to pave the way on the way out, I refer generally to the need for added production in the items that will continue in short supply. We have started production drives during the past 6 months in practically all of those materials. At the present time, we are adding a concentrated drive on textiles, lumber, and pulp. That has been impossible heretofore, because the labor wasn't available to do it. Now, with the adjusting war contracts we are hopeful we can move some of the released labor back to these plants by showing them the job opportunities there as against the war communities where they are residing at the moment.

That is the function of the War Manpower Commission, and so far it hasn't been too effective because most of these workers would much prefer to have some additional war work brought into those com-

munities, because, generally, the war jobs pay better than what they would get back at the job they held in peacetime.

Now, in addition to getting us production on these short items, we are and will continue to release our orders on materials that turn up in long supply. At the same time we will release our production controls on items that can be produced from materials which are in long supply. A number of orders have been released during the last 5 or 6 months, and I think within the next 4 or 5 weeks many more orders can be released.

We will have to time that closely to the adjustment of the military procurement, giving consideration to the lead time necessary to get these industries that have been chained down going again to pick up the slack in the resources that will be released when the military contracts are cut back.

Now, there are two other very important points in connection with this partial adjustment to a peacetime economy. There could be situations in which there would be a scramble for the material and the small fellow would be squeezed out. We recognize our responsibility for making sure he doesn't get squeezed out. Whether that should be done by giving the small producer some blanket authority which would protect his position, or whether we should do it case by case will depend upon which seems to be the best mechanics.

We are appreciative of our responsibility. We have talked with most of the industry committees involved in that problem. We have found them understanding and sympathetic and, I think, willing to assume their fair part of the responsibility of making sure that the small purchaser isn't squeezed out.

We also have the problem of the returning veteran, and, obviously, the Government must do everything in its power to see to it that the returning veteran gets a square deal.

On the other end of making certain that there will not be a wild scramble for materials, we will have to continue our inventory controls and enforce them. We must make sure that speculators or large interests will not preempt the market in an effort to drive up prices and make a speculative profit or an effort to drive out competition in a given field.

Now, to carry on the elaborate planning that must be done within our organization and in cooperation with the Office of War Mobilization and Reconversion, the War Manpower Commission, the Office of Price Administration, and others, we have set up within the War Production Board a rather elaborate structure of committees, but with a simple function. We call the top committee, "The Committee on Period 1," which is what we call the period following the collapse of Germany. That committee has been at work for many months now perfecting the picture on each one of these industries that has a reconversion problem, and projecting, as well as we are able to project it, the picture we will encounter in each one of these materials that has been in short supply, and in the various components that would be critical to a return of peacetime production, which have been in short supply. Electric motors is a good example.

I think the information assembled by that committee will put us in a fair position to deal with the problems which lie ahead. One of the jobs of the committee will be assembling information on these 72 industries that I referred to a few moments ago.

I want to call your attention, however, to one thing that I am sure the committee well understands. This business of going back from all-out war production to at least a partial restoration of our peacetime production will create a great many local dislocations, some of them of very serious proportions. We must do everything we can to deal with them, but there they are, and some of them you just can't relieve. If we shut down a bag-loading plant out on the prairie that is now employing 10,000 people, we can't use that plant immediately for anything else, and in many cases those 10,000 people cannot be employed in that area. The War Manpower Commission plans to treat each of those cases as one of its responsibilities in laying out jobs and opportunities so the men and women employed there will get back to another job with a minimum loss of time. But at the time when those plants close down and those people are put out of work they are not going to be very happy about it, and the readjustments they must go through will parallel the readjustments we went through in 1941, 1942, and 1943, when we got the production built up.

Our primary concern, of course, comes in a feeling that some of those local dislocations will be built up to a point through misunderstanding. So, in doing what we must do to keep the Japanese War program going and to make sure that industry, employing a lot of people, can get started promptly again we must not yield to the many pressures that will try to urge things that will interfere with the prosecution of the Japanese War.

I am sure that this committee will be very helpful to us in its understanding of these problems and in the confidence I think that 99 percent of our people have in the job of war direction that Congress and the Administration have performed.

That closes my general remarks. If you would like Mr. Small to explain the workings of the Production Readjustment Committee or the Committee on Period 1, he is here and I am sure will be glad to tell you about it. If you would like to ask me some questions, I will be pleased to try to answer them.

The CHAIRMAN. I think it would be in the interest of orderly procedure if we would first interrogate you.

I want to ask just one question to start it off, Mr. Folsom, before I turn it over to you.

On this question of controls, Mr. Krug, I think this committee, and Congress, and the people generally would like to see these controls released as soon as possible. Yet I think we all realize that to summarily dismiss all the controls might possibly bring about havoc in our economy.

I am, personally, especially concerned that those controls be eliminated as soon as possible without, as I say, bringing about chaos in our economy.

I wonder if you would care to venture or hazard a suggestion as to the date when we might look forward to ridding ourselves of these wartime controls and restrictions?

Mr. KRUG. I rather hate to speculate on something like that. If you will take it as a speculation, which it must be—

The CHAIRMAN (interposing). I think I tried to make my question in that form.

Mr. KRUG. I know you understand. I am not sure everyone else here understands. This is the way I look at it. We, of course, sub-

scribe to your policy, and the policy of Congress, that we ought to get rid of these controls at the earliest possible date.

They are built up as war measures, and as long as we have the war to tie them to, we have the administrative machinery to make them work. When that purpose is served, frankly, the War Production Board is not equipped to deal with governmental authority to apportion materials and decide on division of components and what products should be made in terms of long-range planning of the economy. We want that clearly understood. We don't look upon that as our function. However, as long as these materials remain, or components remain—

Mr. REECE (interposing). Would you permit an interjection there?

The CHAIRMAN. Yes.

Mr. REECE. You say you don't look upon that as a function of the War Production Board. Do you, as an official of the War Production Board, look upon it as a function of the Government?

Mr. KRUG. If you want my personal view, I don't think it can be done by government. I think I have had as much experience with these controls as anyone, and I don't think it can be done by government. However, as long as the material or component is in serious short supply, and you want to keep the war effort going against the Japs you must continue control. So, that makes it work out something like this: I think within the next 3 or 4 months, probably a fourth or a third of our 400-odd controls can be released. They have a small segment of the economy tied up, and its return to peacetime will not involve the war effort, and they involve materials in reasonable supply. For example, from all we can see now, when the aircraft program is adjusted, there will be plenty of aluminum, and there is no use of continuing the detailed control over aluminum when there is plenty of aluminum.

I think in the period following that, assuming the continuation of the Japanese war, the situation will clarify in the entire field with the exception of these basic things I mentioned before. Textiles, I think, will be in short supply throughout the Japanese war and probably for civilian needs after that. Lumber will be in short supply throughout the Japanese war. Forest products, pulp, containers, and the like, will be in short supply. Tin will be in short supply. At least for a while, lead will be in short supply. However, I hope our production drive on lead will bring that up. We also get help there from military adjustments on the lead picture. There are certain chemicals that will continue in short supply.

Those must be controlled, I think, throughout the Japanese war. However, with the Government pulling out of the market for munitions at the end of the Japanese war, approximately all of these things will return to adequate supply, and I think during this phase, the phase between now and the end of the Japanese war, we can get the economy around to a reasonable balance. So, when the Japanese war ends, our controls can be released.

I hope that somebody won't come back 6 months from now and tell me, "You promised you would do so and so, and you haven't done it." The whole picture must be flexible, and I think one thing we have learned in the war is that you can't forecast its future. Things may develop in the Japanese war that will tighten up some of these things that look at the moment as if they will be in loose supply.

We have tried to set up a working relationship with the Army, Navy, and Air Forces so that we have maximum warning of those changes, but some of them come so suddenly that they, too, are caught short, and all we can hope to do is be ready for those extreme changes when they come.

The CHAIRMAN. Mr. Krug, I tried to so word my inquiry as to make it clear that personally I don't think these controls ought to be released as long as they are necessary for the war effort. The thing that concerns some of us—I think a great many of us—and certainly concerns the businessmen of this country is that they are apprehensive that the war will be used as a justification for continuing these controls unnecessarily. There are those who are apprehensive that we will get these controls going in the wartime and continue them in the postwar era or indefinitely. That was primarily what my question was directed at.

I wonder if we might not see what Mr. Folsom has on his mind.

Mr. WELCH. May I ask Mr. Krug a question?

The CHAIRMAN. Yes, Mr. Welch.

Mr. WELCH. Mr. Krug, in sections of the country, particularly the Pacific coast where thousands of men are being laid off daily in the shipbuilding and airplane industries, should there not be a resumption of peacetime production to help take up the slack of unemployment?

Mr. KRUG. I think there should be, but first we have to take care of our basic needs on the west coast. It happens that at the present time we are desperately short in a number of industries on the west coast and we haven't been able to get the manpower to man them. Take the Northwest. We are seriously short of people in the woods; we are short of people in aluminum, and we are short of people in lead. We haven't been able to get the people released from the shipyards in Portland to take those jobs. But, if we take up all the slack in that area with peacetime production, you will not have any peacetime production anyway, because we can't carry it out without containers and without lead and without metals.

Mr. WELCH. Is it not a fact that you have a stockpile of aluminum to last for the duration of the war?

Mr. KRUG. No, that is not a fact. We are making the most desperate effort to get our aluminum systems manned again.

Mr. WELCH. When you speak of aluminum, do you refer to the Canadian plant, the plant built up in Canada by this country, or the aluminum plants on the Pacific coast?

Mr. KRUG. I am referring to all of the plants that operate with hydroelectric power.

Mr. WELCH. They closed down some of them.

Mr. KRUG. They closed them down last year. We are now opening all of them so far as possible.

Mr. WELCH. Are you opening up the ones in California?

Mr. KRUG. We are not opening those in California primarily because we can't get labor to man them.

Mr. WELCH. You had labor before they were closed down, and the labor is still available. I know the communities where those industries are located and I have visited them in the past. You closed down the plant at River Bank, which cost the Government \$15,000,000.

Mr. KRUG. All I can tell you on that is that we not only consulted the Washington representative of the War Manpower Commission but the local people in California, and they assured us that they could not get the thousand men back at River Bank in time to meet that need.

Mr. WELCH. Who gave you that information?

Mr. KRUG. Everyone in the War Manpower Commission, from Governor McNutt on down to the local director in California.

Mr. WELCH. If you get assurance from California that the labor will be supplied, will you guarantee to reopen the plant?

Mr. KRUG. If they can meet the time schedule, I think we would.

Mr. WELCH. Men out of employment will go where they can to secure work. There are thousands of men all along the Pacific coast being laid off in shipyards and in airplane industries. Those men are not going to stay around and spend their last dollar. They will go any place where inducements are offered, reasonable inducements, for the purpose of securing employment.

Mr. KRUG. I think they will, Mr. Welch, after a while, although our experience in San Francisco—

Mr. WELCH (interposing). They will right now. First-class mechanics, semiskilled mechanics are walking the streets in San Francisco looking for work.

Mr. KRUG. Yet the War Manpower Commission has thousands of jobs open in the San Francisco office that they could take if they were willing to take them, and they have refused, because they are not in the same skill and not at the same wage rate.

Mr. WELCH. What type of employment?

Mr. KRUG. Almost any type you can speak of, although I think most of them are in the logging industries and mining industries.

Mr. WELCH. I know something about logging.

Mr. KRUG. A great many of those men came in there from the logging industry.

Mr. WELCH. Not so many. Most of them came to the ship-building plants from the Middle West. Trainload after trainload of colored men were brought in from south of the Mason-Dixon Line. They are still with us, and many of them are out of employment.

Mr. KRUG. I think it is safe to say that anyone on the west coast who wants a job can have his choice of a number of jobs at the present time. He may not be able to get a job in a town where he happens to be at the wage rate which he has been getting. A man who has been brought in from the Middle West who used to get 50 cents an hour as a common laborer and has now worked up a skill so he can make one certain part of a Liberty ship or Victory ship cannot immediately find work of exactly that same type, that same skill, or at that same wage rate. There are many other jobs open.

Mr. WELCH. There will be only skeleton forces left in the shipyards by early fall. As a matter of fact, the shipbuilding program will be finished either in July or August. Some shipbuilding will be carried on until early fall. What are we going to do with those men that were brought to the Pacific coast at the expense of the Government? What is the Government going to do to help the Pacific coast solve this serious unemployment problem that is facing us?

Mr. KRUG. I think there are a number of things that are being done and will be done. In the first place, ship repair is moving up. It will not take all of them but it will take a lot of them.

Mr. WELCH. The ratio of men engaged in new construction and repair work is 3 to 10, 10 men on new work and 3 men on old work.

Mr. KRUG. It has been that, but the ratio is not that high when you get along to the later months of 1945, because the ship repair load is rapidly pulling up.

Of course, the things I have mentioned are in desperate need. As I tried to explain before, if we don't try to meet them we are not going to get our economy going again. If we don't get lumber and mining and textiles up, there is no use talking about local manufacture, because the material won't be there to make the things they would like to make.

Mr. WELCH. What about steel?

Mr. KRUG. Steel will be in reasonably tight supply throughout the Japanese war if the expansion of peacetime industry is anything like it appears it will be. I am quite sure that the total demand, counting the war demand, the essential civilian demand and all other demands, will exceed what we can get out of the steel industry.

Mr. WELCH. If steel is still tight why are thousands of men engaged in building ships in this country for foreign countries for their postwar trade?

Mr. KRUG. There are not thousands of men in this country——

Mr. WELCH. Oh, yes.

Mr. KRUG. I beg to disagree with you.

Mr. WELCH. I will take you within 3 hours from where we are sitting to the Sun Shipyard in Philadelphia. If you care to go to the Pacific Coast and go to the Columbia River you will find thousands of men there building ships for foreign countries for their postwar trade.

Mr. KRUG. The point I would like to make is that all the ships being built are part of the shipping pool needed to carry on the war.

Mr. WELCH. No, no, I beg to differ with you. They are for their postwar trade. The Dutch secured a loan of \$100,000,000 from a group of New York bankers only recently to build ships for their postwar trade, and contracts have been let to the Sun Shipyard and to a shipyard on the Columbia River.

Mr. KRUG. I don't think I should argue the point with a member of Congress, but the fact is that no steel can be obtained for any ship unless it is part of the essential maritime fleet of the world.

Mr. WELCH. Well, I am a member of Congress and proud of the fact, and I have been a member of the Committee on Merchant Marine and Fisheries for 20 years, and last year and the year before I visited every major shipyard on the Pacific Coast. I know what is going on. What I have told you I can substantiate with any kind of proof you want. We can go up to the Sun Shipyard and I will be glad to go up there with you at any time.

Mr. KRUG. I think that would be an excellent idea. If there is any steel going into ships that are not part of the war effort, I would like to know about it.

Mr. WELCH. They are getting their money at 1½ percent interest. That is 2 percent less than an American shipowner can borrow money from the United States Government.

The CHAIRMAN. Mr. Welch, if you will pardon me, and with due respect to both you and Mr. Krug, I would like to say that is a very serious matter and one I think we would all be interested in. May I suggest that Mr. Krug check on that matter further and advise you about it?

Mr. WELCH. He won't have to go any further than the Chairman of the Maritime Commission. Bring up Admiral Land and he will give you the same information that I have given for the record.

The CHAIRMAN. I am sure you will be happy to check on that matter and advise us.

Mr. KRUG. I will be very happy to have Admiral Land write to the committee. He happens to be the claimant for all the steel for all the shipping. If the Admiral has been asking us for steel for war shipping and turning it loose for postwar shipping, I certainly would like to know about it. (See exhibit 1, p. 2366.)

The CHAIRMAN. I think we would all like to know about it.

Any further questions, Mr. Welch?

Mr. WELCH. No.

The CHAIRMAN. Mr. Folsom, did you have any questions?

Mr. FOLSOM. Just two or three. Of course, the committee is very much concerned, and all of us are, in reducing as much as possible this unemployment that will occur during the reconversion period.

There are a few aspects that seem to me to be most important. The first is that the contractor should have as much advance notice of contract termination as possible. Second, he has to have a period in which to retool and get up the new models and prepare for the new civilian work, and then he must have materials.

Now, when it comes to advance notice, the committee was told last fall by officials of the War Production Board, and the Army and the Navy, the plan you had at that time for systematic telling of the individual contractors several months in advance of what the cut-backs were going to be on VE-day and then keeping them right up to date as you went along as to when cut-backs might come.

I gather from what you say you think you have a better plan now than you had last fall in that respect.

Mr. KRUG. About the same plan except I think it has been perfected beyond that stage.

Mr. FOLSOM. Do you get notice of what these cut-backs are going to be or does the Army and Navy go to these plants—and sometimes it is very short notice—and cut it back without you knowing anything about it?

Mr. KRUG. We get all the major cut-backs in advance. There is a proviso that in an emergency they can cut back without notice. I think that emergency clause hasn't been used very much.

Mr. FOLSOM. You are informed by the Army and Navy?

Mr. KRUG. Yes, although I must say the timing is not all that might be desired. If you had desirable set-ups you have to have five or six months' notice. They have not found that possible.

We have a deal now that they give us 7 days' notice. If they have a cut-back planned in advance we discuss it in advance, but some of these things come in rather suddenly.

Mr. FOLSOM. You try to give several weeks' notice if you can.

Mr. KRUG. Yes. I might explain on that, Mr. Folsom, as an example, the aircraft adjustment plan has been worked out, at least

in the interim stage, and they are now discussing it with the industry. Those cuts are taking place right now and will run on until the end of the year. They are laying them on the table so industry will have that much advance warning.

Mr. FOLSOM. When it comes to giving them a chance to get tooled up and make models, I noticed in the paper not long ago that you had given automobiles permission to buy machine tools and get materials for models, and so forth. How did you happen to pick out the automobile industry?

Mr. KRUG. The newspapers picked out the automobile industry. We didn't.

The policy in the War Production Board is to give all industries in that category exactly the same treatment. So far, I think there are about 72 industries that have converted to the war effort and have problems of these kinds in reconverting. All of them will get the same consideration on their bottleneck tools and facility changes they must make.

Mr. FOLSOM. They are all starting on the same basis?

Mr. KRUG. Yes.

Mr. FOLSOM. When it comes to allocating materials, you won't have enough materials to go around.

Mr. KRUG. This is only to get ready. We will take care of their get-ready steps.

Mr. FOLSOM. You feel you have enough material available for that?

Mr. KRUG. We will have to take it. It isn't so large that we feel it will be an impact on the war effort to a serious extent. At the present time we are so short of materials and machine tools and some of the components, you have to work it in at the expense of some of these other things which are very important too.

Mr. FOLSOM. In connection with that retooling, as you know up until recently, the last three or four months, deferments have been given to men who are doing experimental work and research work in the plants, mostly for the war, and in the last two or three months, due to the draft changes, many of those people have been taken away.

Of course, they are the very men that would be the most helpful in reconversion. Has that situation changed any since the war situation changed so?

Mr. KRUG. It has improved a little, but it is far from perfect. It is a tough situation. Here is a gentleman who can be very helpful to the automobile industry in getting them ready for peacetime production. That is his only function. Here is a fellow who has been fighting for four years and ought to be discharged anyway because of the strain he has been through. Are you going to tell him to fight on for another year and let this fellow work on automobiles?

Mr. FOLSOM. The point is that these people have been deferred all this time and now one man like that can probably be more important furnishing jobs than any other hundred men or thousand men at the plant.

Mr. KRUG. We have advocated that the local draft boards give maximum consideration to this in meeting their essential quotas. Assuming they have drained them all off, I think you come down to a pretty hard choice.

Mr. FOLSOM. I think that policy was adopted at the time of the Belgian bulge. Has it been changed since?

Mr. KRUG. We change it every week. I think the first arrangement was 30 percent of the deferred class could be retained. That has been gradually opened up until now it must be 70 percent. So, I feel that if it is carefully done in the field the people who will be taken out of this group will not be the indispensable people. I think that if any industry has an indispensable man, for the purpose you have in mind, it can get him deferred and make up the quota from people who are in less essential positions.

Mr. FOLSOM. I know we have had a lot of complaints.

Mr. KRUG. We went through a trying period when we had to get them, but I think that has been somewhat improved.

Mr. FOLSOM. When it comes to the question of allocating materials when they become available, I imagine you are going to find that a pretty difficult job. You have complete inventory figures from the services as to raw material?

Mr. KRUG. We have inventory figures on all the major plants of the country, whether they are military plants or privately owned plants.

Mr. FOLSOM. When you have a lot of material on hand, where a contract has been terminated, what plans do you have to allocate that fairly to small businesses and other businesses you might know about?

Mr. KRUG. Our own proposal—rather, this is the proposal of the Surplus Property Board—is to let that material go without controls. We feel if we step in to decide who should get it, that will slow up reconversion. The problem is so difficult in itself—to get that material disposed of to someone who can use it, we don't feel it is practical to try to control that end of the priorities.

I think the Surplus Property Board still has some idea that they will set up a disposition of it by giving preference to small business and Government agencies as prescribed in the act. I can see great difficulties if you try to make that procedure too formal in terms of who gets first preference to it. You won't sell it at all and it will end up on some scrap pile.

Mr. FOLSOM. What about raw materials as they become available?

Mr. KRUG. We have our controls of those. As long as they remain in short supply we will have allocation orders for dividing them up. When they get in long supply we would like to back out of the field and let the market divide them up.

Mr. FOLSOM. When it comes to these spot authorizations, do you consult with your management and labor people in the various localities on those?

Mr. KRUG. Yes. That is handled locally. The way that works is local management decides it has material, manpower, facilities, to make a particular product. The manufacturer of that at the present time is stopped by Nation-wide order. He goes to our local office and says, "I can make such-and-such, I have got the men and I have got the material, or I understand the material can be obtained and I want to make it."

Then a meeting is called of the procurement services and the War Manpower Commission, and if they feel that his operation will not interfere with the war effort he is given permission to produce that

and given a priority for the materials that he needs, assuming he can get those materials without interfering with the war effort.

Mr. FOLSOM. You mentioned that you thought the cut-backs might amount to 12½ percent during the first four months, or the over-all production might decline 12¼ percent during the first 4 months.

Mr. KRUG. Those are the figures they give us at the present time. I think the reduction will be somewhat larger right straight through as the figures are laid out. This is the end product. It is important to keep in mind that these figures relate to end products. The components have a lead time. So, the cuts made 6 months hence affect materials immediately. So the cut in productive effort is greater than that indicated in the cut in the end product.

There is also the factor of using up inventories and adjusting inventories at the lower level of production. It tends to cut the material producer and component producer more than the fellow actually produced on his prime contract.

Mr. FOLSOM. At the end of the year that might go to 40 percent?

Mr. KRUG. Yes.

The CHAIRMAN. Dr. Kaplan, do you have any questions?

Mr. KAPLAN. Most of them have been asked and answered.

I would appreciate it, Mr. Krug, if you would elaborate on the matter of treatment to small business, on which you touched in your formal statement. What has happened to the program that was started last year of providing materials and giving releases to small businesses, to what extent did you have to stop that with the counter-attack, and to what extent has it been restored as part of your policy right now?

Mr. KRUG. It is still part of our policy. We held up on it in the critical labor areas, except in those cases where the various agencies were agreed that the operation would not interfere with the war effort. Incidentally, there have been hundreds of those cases where they have agreed even in critical labor areas.

Now, with the change in the war we feel that additional incentive must be given to the small businessman to get going again. One thing would be to release him from our orders, if the production isn't below a certain amount, and let him go ahead on his. I don't think that would cause any interference to the war effort.

The other is to give him some positive priority help so he is encouraged and knows he will get his materials and start back in production again. We are still considering whether that method or the first one I mentioned would be the desirable way of doing it when this productive capacity becomes available again.

Mr. KAPLAN. What efforts are being made where a cut-back is contemplated several weeks in advance to tie in the cut-back with a program of release or allocation of materials so as to keep the labor, or force it to go where that is practical? Do you have any machinery for that?

Mr. KRUG. Yes, we have the machinery for that. It is part of this Production Readjustment Committee. In the first place, we try to make the cut-backs in the plants where that is a possibility, holding the remaining production in plants where you don't have that possibility. The next step is to free up plants which produce components that are needed in the over-all effort. There is a definite list of criteria that was worked out in cooperation with the Byrnes Office several

months ago that the procurement agencies use as guides to them, and which our production readjustment committee uses in reviewing the cut-backs.

As I said before, that is far from perfect, but it is a lot better than anything we have ever had before.

Mr. KAPLAN. I am wondering whether the preparations are such that if you should hit, we will say, an early VJ-day, will you be able to cope with the multiplicity of these situations in which you have to save the manpower set-up by quick reconversion or allocation. Do you have your plans ready to go for that kind of a situation?

Mr. KRUG. This isn't a very popular answer, but I think I should tell you quite frankly that we don't expect to plan what should go into each plant on VJ-day.

We do plan to tell manufacturers that we are going to get out of the way on VJ-day and they ought to make their plans now. The materials will be available and the labor will be available, and the plants will be available and they had better get busy as to what they are going to put in there. We don't think we ought to tell them what to put in or try to work out some super plan of strategy that something is going to fall in each one of these plants. I think our efforts toward that end would be an interference rather than a help.

On the other hand, in guiding adjustments during this interim period we would like to make them in such a way that when the time comes they will provide the maximum stimulus in getting the get-ready steps all completed, and the businessman will not have too many barriers to hurdle when he wants to turn that facility to some other use.

Just one little instance there. The automobile industry is perhaps talked too much about, but it does have a tremendous problem of reconversion and a great many people are involved. The military have been busy for months trying to adjust contracts so those peacetime facilities are going to be freed-up and ready to go when VJ-day comes anyway, if not before, so they can promptly go ahead with building automobiles and taking up that employment that is being released from the military work being done in the same area.

Mr. KAPLAN. I felt there may be a tendency on the part of business to expect the War Production Board to do its planning for them in that connection, and I am inclined to think that perhaps there isn't enough initiative encouraged by the Government agencies among the private industries themselves.

Mr. KRUG. I think you are right on that, although I have talked to a great many businessmen and you would be amazed how far their planning has gone forward. Most of them want to stay alive and they have been pretty active in finding out what they ought to be doing after this war is over and how they can get going at the earliest possible time. They camp on our doorstep almost constantly to see that we take the steps necessary so they will be ready to go when the time comes.

I think I ought to make it clear that the War Production Board is only one part of this problem and they have to get a deal from Defense Plants Corporation, RFC, Surplus Property Board, and so on. We try to help them get all those other decisions made, but, by and large, ours have been the negative ones.

The CHAIRMAN. I might observe that my experience has been that most businessmen are looking forward to when they can get out from under your control.

Mr. Reece, did you have some questions you wanted to ask?

Mr. REECE. The questions I had in mind were asked by Mr. Folsom and Dr. Kaplan.

I do want to make this observation. I am very much gratified with the plans you have indicated have been formulated to effect this change-over to peacetime production, insofar as possible, in advance of when the change actually will be made.

I am particularly pleased with your effort in setting up the committees.

The subject referred to in Doctor Kaplan's inquiry is particularly in my mind, and that is the extent to which these appropriate committees or other agencies in the War Production Board had made a study of the 72 industries which have converted to war production, and with the view of the War Production Board having taken so far as possible the necessary steps to put them in a position to get into peace-time production as soon as they are released from war-time production.

It is all very well to say that that is a problem of the industries and that they are very greatly interested in it. But on the other hand, that is a problem which the industry involved, or the company involved, cannot solve now by reason of the limitations placed by the War Production Board in getting the facilities necessary for him to reenter peacetime production.

I have been particularly interested in the extent to which these committees have gone in encouraging the companies to present what is necessary to be done to enable them to begin to produce peace-time goods for which their factories are suitable when they are released from war production.

For instance, last fall when the president of one of the motor companies was before the committee I asked him what would be necessary if he were released from war production today for him to begin to produce automobiles.

One phase of his reply was that 3,600 machine tools and so forth would be required before he could produce an automobile. In a lesser degree that is true of the smaller companies.

Now, you have indicated that insofar as possible you are releasing the production facilities now to provide machine tools and other facilities necessary to put them in a position to begin peace-time production.

This isn't a question so much as an observation. If the War Production Board realizes the responsibility of getting into peace-time production as greatly as you realized the responsibility and urgency in getting into war production when the emergency arose, then I am satisfied it is going to be done. Then, I think, the same urge, the same determination, that this job must be done should exist as obtained when we were converting from peacetime to war production.

I readily agree that we are in a much better position to make the changeover now than we were in 1918, but we must realize the problem is very much greater than it was in 1918. It compares to putting into reverse an automobile that is going 80 miles an hour and one that is going 10 miles an hour.

If we permit war production to be stopped—and these 72 industries will not be in position within a reasonable time to absorb a substantial

amount of the labor—and ever permitted a condition to arise in production where we will have 12, 18, or 20 million people unemployed, we are going to have a state of chaos in this country that is going to make reconversion impossible, certainly without the Government coming in and exercising a controlling hand just as it did in getting into war production.

I for one have been greatly disturbed about the slowness with which we are getting ready. I am encouraged by what the War Production Board had been doing. This is an observation and no question.

Mr. KRUG. I certainly agree with what you said.

I would like to make an observation so the committee is clear on it. Obviously, there are things that would have been desirable during the war as get-ready steps for this period we face ahead. We haven't been able to take them without interfering with the steps we had to take to keep the war going. That was a risk. We resolved it in favor of tossing the stuff to the military that we felt they had to have as against these other things, such as building new plants and having them tooled up and ready to go when the war work ends.

We didn't have the resources to do it. Now we are getting to the period where we have the resources to do it. I think these industries will be ready to do it when we have the material to turn loose.

If the timing isn't perfect I want the committee to know that it was not because we didn't plan for it. It was because of the tremendous drain on our economy in the last 6 months trying to finish off the war in Europe.

Mr. REECE. If you will put the same energy and the same determination to solving the changeover to peace production as you did in changeover to war production, I for one am satisfied it will be done.

Mr. KRUG. Thank you, sir. To be candid with you, I don't know whether any of us can go through the period we went through in 1940 and 1941 again. As you know, we thought the Germans might be coming across the Atlantic any day then, and American industry, in getting ready for the war, did an amazing thing. I hope they will—and I think they will—do as good a job in going back.

Mr. REECE. That is the point. The Germans were coming at us then. Unless we can do this job reasonably well, chaos is going to be coming at us and it is going to be just about as serious.

Mr. KRUG. Right.

The CHAIRMAN. Mr. Voorhis?

Mr. VOORHIS. I would like to observe that I agree with everything you and Mr. Reece have said here. I can't see how you can possibly go at this job of conversion back to peacetime in quite the same way that you went at the job of conversion into war production.

I would like to add that I hope you won't. I think we made some mistakes that we don't want to repeat.

Mr. KRUG. What mistakes?

Mr. VOORHIS. I don't mean you. I mean everybody. I think that we got too ready for an early end of the war and then it didn't happen. I think we have got to recognize the fact that it is much more difficult to know when you can do things now. For that reason it is much more necessary to do all the things that Mr. Reece said.

Mr. KRUG. I think that is a very wise observation. I hope in the natural desire of everyone to make this match perfectly you won't

match the peace production into a point where it shoves the Japanese war production back.

Now, I know how delicate that is. The first thing I know is that somebody will be saying, "Cap Krug advocates unemployment so we can protect the Japanese war." I don't. I think you have to play this thing in safeguarding the Japanese war effort rather than having a tremendous rush to do something and find out later that we have crossed up what we have really set our minds on doing.

Mr. VOORHIS. Now I want to ask you a couple of questions about the West Coast if you don't mind.

Mr. KRUG. Not at all.

Mr. VOORHIS. The first one is that assuming the war in Europe ends soon, what assurance do we on the west coast have that we won't have a picture of wholesale reconversions on the east coast without some corresponding reconversion on the west coast? In other words, if all war production is concentrated on the west coast for the Japanese war and the east coast production for war is very sharply cut below what our production out West is cut, we would suffer tremendously in the future. What do you contemplate on that problem?

Mr. KRUG. We are very appreciative of that problem. It is one of the things that has bothered us now for a year and a half.

We set up this Production Readjustment Committee for the very purpose of equalizing, to the extent possible, the adjustments throughout the country. I haven't seen them analyzed in detail by regions, but it is not much different than it was last fall when we did analyze it in detail, and the disparities were not very great.

Mr. VOORHIS. About how much?

Mr. KRUG. As I recall, the over-all cut-back for the average for the year after victory in Europe was 33 percent for the country as a whole and 25 percent on the west coast. I think there will be disparity in that vicinity, but I think you will have all the resources out there you will want for moving forward with whatever the west coast war plans might be.

If anything, I think you are going to have a problem in finding work for all the people you now have on the west coast.

Mr. VOORHIS. So do I. That is the one reason why I am concerned about this.

Mr. KRUG. In short, I don't feel it is going to be a problem of keeping too much war production out there. Your problem is going to be to use the resources released from the war effort.

Mr. VOORHIS. That is true. But we have got to take something of a long-range view of that unemployment problem itself.

Mr. KRUG. I think you should have that come gradually rather than hit you all in one day.

Mr. VOORHIS. I do, too. Would you agree generally on this proposition that where civilian goods would have to be imported to the west coast from the east coast that it would be just as reasonable to ship a certain amount of war goods from the east coast to the west coast, transportationwise as it would be to produce those war goods on the Pacific coast, and shift civilian goods just for our own consumption?

Mr. KRUG. Yes.

Mr. VOORHIS. I heard you say that the aluminum plants couldn't be started out there because of the manpower shortage. Only yesterday I read an article in the Los Angeles Daily News where Mr. Fay Hunter and other big Government officials on the coast had pointed out that the aircraft and shipbuilding industries are today employing 300,000 people less than they employed at the peak and there will be 100,000 more people discharged by those two industries between now and July, and that they hope the net unemployment at that date will be no more than 25,000 people.

How does that fit with the manpower shortage?

Mr. KRUG. You will recall that it was 2½ months ago that the decisions were made as to what aluminum plants we could continue on to get the supply.

Mr. VOORHIS. I shouldn't have mentioned aluminum, maybe.

Mr. KRUG. I think your situation is going to improve greatly during the next 3 or 4 months.

Mr. VOORHIS. How soon are we going to get a recognition of that fact and get a change in the restrictions on the production flow?

Mr. KRUG. As far as we are concerned, we feel that our controls are such that the instant your labor eases up out there, the controls on the spot basis ease up with it. For example, the reclassification of labor areas is automatic. As soon as the labor area is noncritical, the spot authorization goes in effect with everything exactly the same as it was last summer.

Mr. VOORHIS. I don't exactly agree. That would happen if it weren't for the fact that some of the big employing groups, I am afraid, sometimes have a particular interest in maintaining a tight-labor area classification. I think that Government officials are going to have to watch that tendency pretty carefully on their own hook. You don't need to answer that.

Mr. KRUG. We have been worried about the speed with which these reclassifications will be made. If they are not made, we are in trouble. The War Manpower Commission tells us, "Don't put production in critical labor areas. If you do, we won't promise to get out war production."

At the same time, if the plant isn't sufficiently flexible to adjust immediately, not after labor becomes loose, but when the proper timing comes as to when it is going to become loose, we are in trouble because we don't have the production started in time to take up the slack.

Mr. VOORHIS. I just have two more questions.

The first one is about farm machinery. I am on the House Agriculture Committee, Mr. Krug, and we have been deeply concerned, because it appears to us that a certain amount of steel and other materials are being permitted to be used in other nonwar production when still there isn't very much being done to increase production of farm machinery.

I would like to have you comment on that. I would also like to have you comment on my personal observation to the effect that the problem may be complicated by the fact that large-scale producers, not only in this line but in other lines, may not want to see some of these things produced for the civilian economy too quickly because they think that the smaller producers will get the first whack at it.

Mr. KRUG. I don't think you are asking me to answer the second

part of your question. But on farm machinery the conflict has not been with nonessential production. Farm machinery has been delayed for two reasons. In the first place, the castings that they need are in direct conflict with the military, and there has been a shortage of castings for the military itself.

In the second place, they have been short of labor.

Now, we have taken steps. I hope the press people won't use this until it is officially released from the War Production Board. We have restored the allocation to production of farm machinery on the level of the first quarter, because we feel the change in the military picture is such that we should not cut that production down but build it up. So they will go back to that rate.

They will still have this basic difficulty that has affected the total production. They will still have the problem of getting steel. We could have given them many more steel tickets, but you wouldn't have any more machinery because the foundries were the bottleneck.

Mr. VOORHIS. Do you think the foundry labor has had anything to do with that?

Mr. KRUG. We thought it did and we adjusted it. Now the foundry people tell us it is on the right level, and I think we have to take their word for it.

Mr. VOORHIS. Finally, as far as small business having prior opportunities, insofar as it fits with the war effort toward getting started at reconversion, you would agree that insofar as that can be done it should be done?

Mr. KRUG. Yes, sir.

The CHAIRMAN. Mr. Wolcott, did you have anything?

Mr. WOLCOTT. I have nothing.

The CHAIRMAN. Mr. LeFevre?

Mr. LEFEVRE. Mr. Folsom brought up the matter of surplus inventory in plants that have their contracts terminated. Wouldn't your board be in better shape to know where to dispose of their surplus inventories than the Surplus Property Board?

Mr. KRUG. We have in the past helped a great deal on that, and we still have regional staffs that help. However, when the board was set up—I think even dating before that—we gradually tried to turn over our responsibility to the group officially set up to do it.

I think, as a continuing proposition, the board is in a better position to do it than we are, because the surpluses will be a factor during the war, but a much greater factor in the peace and they ought to be organizing the kind of group they need to specialize in that kind of problem. We have offered to help them in every possible way. And, as I say, we still have in our field offices a group of people who know plants in short supply and they refer them to these surplus inventories where they seem to match their needs.

The CHAIRMAN. Mr. Murdock, do you have any questions?

Mr. MURDOCK. I think not, Mr. Chairman. My questions have been asked and answered.

The CHAIRMAN. Mr. Simpson?

Mr. SIMPSON. Mr. Chairman, with your permission I would like to ask a question or two for Mr. Fogarty, who had to leave.

Of the available lumber today, Mr. Krug, Mr. Fogarty would like to know to whom it is being allocated.

Mr. KRUG. We could give him that in detail. It is being allocated pursuant to a pattern which gives priorities to war contractors and the Army and the Navy. Most of it goes into those channels. Another considerable segment goes to construction that we have approved as essential in the war. Then, there is a small-order exception which takes care of the farmer and the fellow who has a little repair to do, and whatnot, and that accounts for the balance. We do not have the detailed customer-by-customer allocation.

Mr. SIMPSON. Is any of it being allocated to lease-lend?

Mr. KRUG. I don't think it has been allocated to liberated countries. Some of it is going to Great Britain. They have wanted to get some for bomb repair, but we haven't been able to give them any more than they need for the war effort.

Mr. SIMPSON. Is any of it being sent to foreign countries to rebuild their cities?

Mr. KRUG. As I said, the only case so far is Great Britain, and they have requested some, but so far we haven't been able to allocate it.

Mr. SIMPSON. Mr. Fogarty would further like to know how long it will be before lumber will be available for private and public construction, such as schools and hospitals?

Mr. KRUG. I think there will be a degree of easing after resistance in Germany collapses, but it will not come immediately on VE-day. There will be a tight lumber supply, I think, for the entire period of the Japanese war. I think we ought to except the smaller user of lumber, the fellow who wants to build a small house, and essential public buildings. The bigger projects will have to be decided on the project-by-project basis in the light of the lumber available.

Mr. VOORHIS. What about veterans' hospitals?

Mr. KRUG. We will take care of that.

Mr. SIMPSON. I would like to ask two short questions for myself.

Mr. KRUG, on the suppliers of automobile manufacturers, what has been done to take care of them?

Mr. KRUG. They are being treated exactly as the automobile industry is being treated.

Mr. SIMPSON. There are thousands of them and I was wondering if they were receiving the same treatment.

Mr. KRUG. It is hard to make sure they get the same treatment.

Mr. SIMPSON. As far as possible?

Mr. KRUG. Yes. We have tried to broadcast it down through the industry that they had better take care of these get-ready steps.

Of course, that is of great interest to the industry on the assembly end, because if their supplies aren't ready to go, it isn't going to help them.

Mr. SIMPSON. One small supplier can stop the production of one automobile.

Mr. KRUG. They have been very conscious of that, and some of them have been to elaborate pains to try to make sure their subcontractors will be ready to build.

Mr. SIMPSON. I have had an instance or two—I think I called your office about it, and the War Food Administration. I have an instance of where a returning veteran has been honorably discharged, and was engaged in agricultural pursuit before he went into the service and could not get farm machinery to go back to his agricultural pursuit.

Nothing was able to be done about it before this spring. I did receive a letter that they hoped to take care of it by fall. What can you tell me about it now?

Mr. KRUG. We are at fault to the end that production isn't up to the desired level. As I explained before, that is because so far the conflict has been with direct military and we can't produce more machinery than we have been producing. However, the allocation of that machinery, as to who gets it, is entirely in the hands of the War Food Administration. They backed away on the decision some 6 months ago, saying that they weren't in any better position to decide who should get it than the dealer was. At the present time, if the veteran is to be taken care of, it would be through some system they would work out with the dealers to meet their demands first.

Mr. SIMPSON. I can appreciate what you said about the castings for that farm machinery. But I do think that if there is any possible way to take care of a veteran, honorably discharged, who had been in agricultural pursuit before he entered the service, he should be taken care of, if at all possible.

Mr. KRUG. I agree with you on that. In our procedures, we do everything we can to help him. In some cases it is awfully hard to take care of him.

Right now we don't have enough print to print all the books they would like to print. Any returning veteran can get some fellow who wants to print a book to insist on an allocation for book print. He has no function in the thing other than capitalizing on his status as a veteran.

Mr. SIMPSON. If he hadn't been in the book-printing business prior to the time he went into the service, he would not have a very substantial case.

Mr. KRUG. We don't think so either. But that does not make the fellow feel very happy, who has been told by some fellow that he could get on his feet fast by asking for an allocation of material.

Mr. SIMPSON. Where a fellow has been in a certain pursuit before he went into service, he should be taken care of to try to get him back on his feet if it is at all possible.

Mr. KRUG. Yes.

The CHAIRMAN. Mr. Murdock, do you have a question?

Mr. MURDOCK. I would like to ask one question.

I have not been able to be here during all the testimony.

I would like a further statement with regard to the strategic and critical minerals and metals, as, for instance, copper, lead, and zinc.

Are you prepared, Mr. Krug, to state how you are now supplied and whether you are ready to release for civilian uses those supplies?

Mr. KRUG. I think I can answer it in this way. It appears that copper and aluminum, when these adjustments in production can be made, with the collapse of Germany, will be in reasonably loose supply. Steel will be tight for some period of months. Lead will be exceedingly tight for some period of months.

We are going to have to exert desperate efforts if we are going to get enough lead production out to take care of some of the things that really should go forward. It would be a crime if we couldn't build automobiles due to the fact that we didn't have enough lead for batteries. We must pull that production up.

Tin continues in tight supply, through the Japanese war.

Zinc will not be too badly off when the production load on the European war eases up.

Rubber, while close, I think will work out. The war demands for rubber have been fantastic. They tell us they will continue. I have a feeling they can't continue at the levels now projected.

That, I think, covers most of the basic metals.

Mr. MURDOCK. Does it seem to you that we should continue our efforts to get domestic production as we have thus far in the war period?

Mr. KRUG. We feel, when it is a question of getting material for the domestic economy, as far as production is concerned, we ought to do everything we can. The price question is a very ticklish OPA question. During the war, we have, as a war agency, sponsored subsidies to take care of war production. We don't think we have legal authority to take care of peacetime production, but the OPA, I presume, could resolve that with increase in price or subsidy as they saw fit.

The CHAIRMAN. Mr. Krug, just briefly, I wonder if you could throw some light on a question that has been giving me just a little concern. We have certain critical materials. You referred to them a moment ago, such as lumber, lumber products, paper, and things of that sort. To what extent are we exporting these items to other countries where those countries possibly could obtain those materials from other sources?

I realize under our lend-lease, good-neighbor policy, and all that, there is some urge, and possibly necessity, for sending a lot of these strategic materials to the countries concerned, but, is there proper consideration being given to the availability of those materials by those countries from other sources?

Mr. KRUG. Well, I guess I shouldn't try to tell you a perfect job has been done, but it has received a great deal of attention. With that particular problem in mind, Justice Byrnes created some time ago a committee, including all of the top-side war agencies, to concentrate on problems of that kind, to make sure that we are not drawing down our economy unnecessarily for export demands.

I must say that the people who are primarily responsible for export demands, such as the Foreign Economic Administration and the State Department, feel that our policy has been most niggardly and we haven't given them enough to really supply their economy in our own interest, so that we will have the kind of world-wide basic economy that we need to secure the peace.

I think we have probably done a pretty fair job. I don't think there is any great leak there in terms of short materials that we need in this country.

The CHAIRMAN. I shall not pursue that further. I wanted to get your views, broadly, on that question.

Mr. Krug, we are very grateful to you for your attendance here this morning. We appreciate your forthright manner in presenting these problems, and I am sure that the committee feels as I do, that you are doing good work on a rather difficult job.

Since there are some conference reports on the floor, I am afraid we won't have an opportunity to hear Mr. Small, but if Mr. Small has a prepared statement, we will be glad to have it for the record.

Mr. KRUG. We might give you an explanation of how these committees work. We have some material that we will send up that outlines just how these committees operate.

The CHAIRMAN. We will appreciate that.

Mr. KRUG. Thank you for your courtesy, Mr. Chairman.

The CHAIRMAN. Thank you.

(Whereupon, at 12:01 p. m., an adjournment was taken.)

POSTWAR ECONOMIC POLICY AND PLANNING

WEDNESDAY, JUNE 20, 1945

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE POSTWAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met, pursuant to notice, at 10:45 a. m., in room 1012, New House Office Building, Hon. William M. Colmer (chairman) presiding.

Present: Representatives Colmer (chairman), Zimmerman, Wolverton, O'Brien, Simpson, and LeFevre.

Also present: Marion B. Folsom, staff director; A. D. H. Kaplan, and Edwin B. George, consultants for the committee.

Witnesses: Raymond Rubicam, member of the research committee of the Committee for Economic Development, accompanied by Howard B. Myers, executive secretary of the research committee of the Committee for Economic Development.

The CHAIRMAN. The committee will come to order.

With the victory in the European field, the advancements in the Pacific and, we hope victory in a short time in that theater, we naturally come closer to postwar problems, and with that arises the question that so many of us are interested in, about when and where to drop some of these Federal controls.

I think there is one think we are all agreed upon in this committee, and that is, we want to get rid of these governmental controls as soon as possible, yet consistent with ultimate and speedy victory.

We all recognize the necessity for these wartime controls but we dislike very much to think of them as perpetual, so with that thought in mind, we have arranged these meetings. I am going to ask Mr. Folsom, the director of our committee, at this point to make such statement, either adding to, differing from or independent of, the statements that I have just labored with.

Mr. FOLSOM. Mr. Chairman, as we indicated in the fourth report¹ that the committee issued on the economic problems of reconversion, the removal of war-time controls is a question which the committee thought it should take up actively. We have been able to get Mr. Edwin B. George as consultant to the committee to help with this work. He is with Dun & Bradstreet in New York and has also had quite a little experience with the WPB in the last 2 or 3 years in special studies for the chairman of the War Production Board on the question of controls.

We thought it would be advisable to have a series of hearings to give the committee the background of this problem. Our witness today

¹ H. Rept. 1855, 78th Cong.

is Mr. Rubicam, representing the Research Committee of the Committee for Economic Development, which has made quite a study of this problem, and we have asked him to give us a broad background of what the problem is and their idea as to when the controls should be removed. Then we also plan to have with us members of the National Planning Association who have studied this problem quite extensively; Mr. Moulton of Brookings Institution and Eric Johnston, president of the Chamber of Commerce of the United States. We have asked Mr. Bowles of the Office of Price Administration next week to give his views and later we will probably have Mr. Krug again, then Mr. Clayton to tell us about the export foreign trade controls and someone to go into the question of Federal reserves, the question of removal of controls on installment payments and financial controls. That is our program.

The CHAIRMAN. Our witness this morning is Mr. Rubicam, member of the research committee of the Committee for Economic Development and also of the firm of Young & Rubicam.

We are very glad to have you here this morning, Mr. Rubicam. I wonder if I might just digress to say that, as a member of this committee and I think I speak pretty largely for the committee as a whole, we are very appreciative of the splendid work that the Committee for Economic Development is doing in this field. Personally, I think it has done one of the finest jobs of any organization that has undertaken some of these tremendous problems. We are glad to have you with us, Mr. Rubicam.

Mr. RUBICAM. Thank you for those remarks, Mr. Chairman. I know that my associates will be glad to hear that. Perhaps you have already told them, but I will tell them, too.

STATEMENT OF RAYMOND RUBICAM

Mr. RUBICAM. My name is Raymond Rubicam. Until several months ago I was chairman of the board of the national advertising agency of Young & Rubicam, Inc. I am interested, as a director and owner, in a number of other companies, three of them small businesses. I am a member of the research committee of the Committee for Economic Development, and was chairman of the subcommittee which drafted the recent CED policy statement on Postwar Employment and the Removal of Wartime Controls. I am here to present and to interpret the views expressed in that statement.

The primary purpose of the CED is to encourage and assist businessmen to make their maximum contribution to the achievement and maintenance of high production, high consumption, and high employment in the Nation. These objectives must be attained within the framework of a vigorous and expanding economy in which the great volume of jobs will be provided by free private enterprise.

To this end, the CED had helped organize more than 2,800 local CED committees, with a working membership of more than 60,000 businessmen. The CED's National Field Development Committee acts as a clearing house for the best ideas on company planning and, through the local committees, gives assistance to individual companies and businessmen in the form of market studies, step-by-step planning procedures, hand books, panel discussions, sound slide films, charts, and so forth.

But the efforts of individual businessmen and companies to expand and increase employment—important as they are—cannot succeed unless we have a favorable economic climate in which individual plans will have a chance to become realities. For this reason, the CED established its national research committee. Its work is to study economic conditions and economic policies objectively and impartially, in order to discover what policies, whether of government, business, labor, or agriculture will create a climate in which such growth can take place.

Following such studies, the research committee from time to time issues recommendations as to the policies which, in its considered judgment, should be pursued if we are to have a high level of jobs and production after the war. The statement recently issued, and which I am here to discuss, called *Postwar Employment and the Removal of Wartime Controls*, is one such policy statement.

I wish to emphasize that the research committee's recommendations on this subject are the result of long and careful study. While the committee has been assisted by an able group of economists, the conclusions reached are those of the businessmen themselves. The committee's study of the subject of wartime controls has extended over a period of nearly a year, during which all angles of the problem were carefully explored. The committee's statement is thus a responsible one, arrived at in a responsible manner by responsible businessmen.

The Research Committee's statement does not necessarily represent the views of all of the 2,800 local CED committees or of all of their members, since they did not participate in the discussions from which the statement was developed. It does represent, however, the unanimous views of the businessmen who are members of the research committee.

At this point I should like to name the members of the committee:

Ralph E. Flanders, chairman; president, Federal Reserve Bank, Boston, Mass.
 William Benton, vice chairman; chairman of the board, Encyclopaedia Britannica, Inc., New York, N. Y.
 Chester C. Davis, vice chairman; president, Federal Reserve Bank, St. Louis, Mo.
 William C. Foster, vice president, Pressed & Welded Steel Products Co., Inc., Long Island City, N. Y.
 Paul G. Hoffman, president, Studebaker Corp., South Bend, Ind.
 Eric A. Johnston, president, Brown-Johnston Co., in care of Chamber of Commerce of United States, Washington, D. C.
 Ernest Kanzler, chairman of the board, Universal Credit Corp., Detroit, Mich.
 Raymond Rubicam, 444 Madison Avenue, New York, N. Y.
 Gardner Cowles, president and publisher, Des Moines Register & Tribune, Des Moines, Iowa.
 Donald David, dean, Graduate School of Business Administration, Harvard University, Cambridge, Mass.
 John Fennelly, partner, Glore, Forgan & Co., 135 South LaSalle Street, Chicago, Ill.
 Beardsley Ruml, treasurer, R. H. Macy & Co., Inc., New York, N. Y.
 Harry Scherman, president, Book-of-the-Month Club, New York, N. Y.
 Marion B. Folsom, treasurer, Eastman Kodak Co., Rochester, N. Y.
 R. Gordon Wasson, vice president, J. P. Morgan & Co., Inc., New York, N. Y.

Copies of the committee's policy statement have been supplied to you. It is brief and I urge each member of your committee to read it in full. I shall now summarize its principal findings and recommendations.

First, the committee lays down the basic principle that controls should be removed as soon as possible after the emergency need for

them has passed. This does not mean, however, that the duration of the emergency will be the same for all controls. With some specific controls the emergency is beginning to end now; in other cases it will end with victory over Japan; in still others it may extend for some time into the postwar period. With some specific controls, gradual steps toward removal will be advisable—with others removal can be complete.

Clearly, no control should be removed at a time when its removal would jeopardize any phase of the war effort or threaten the successful transition to a healthy peacetime economy. But we should guard against indefinite continuance of any of these emergency controls just because they are there, or because they have worked well during the war.

The second general principle which the committee believes should guide the removal of wartime controls is this: Controls are interdependent, they supplement one another. The ending of each control must, therefore, be considered in the light of its relation to other controls. For example, price control would be more difficult if rationing and wage controls were ended. As controls are so interdependent, their suspension or removal must be effectively coordinated. Piecemeal action by separate agencies subject to conflicting pressures would not produce orderly demobilization.

The third principle which the committee believes should guide us is this: That until victory over Japan is won, controls should be removed by administrative action only where the need for them no longer exists. It is universally conceded that if legislative authority to control is ended and later needed, its timely restoration would be difficult, if not impossible.

World War I showed us that the forces of demand and supply were not sufficient to cope with the economic problems of modern war, and showed us the need of controls. But even with the controls then put into effect, the war years 1917-18 brought rising prices, delays in conversion, maldistribution of vital materials, waste of manpower, consumer shortages, and hoarding of both raw materials and consumer goods.

Moreover, in World War I controls were removed too early. In late 1918 and early 1919 came a fall in prices, a decline in business activity—what might be called a temporary deflation. But this was a trap for the unwary. By June 1919 prices had rebounded and were well started on a dizzy spiral of inflation. Then in 1920 they crashed, carrying the Nation into depression and unemployment. Out of that experience and the experience of other nations, we formed some new convictions about how the job ought to be done next time.

In consequence, we set up controls in this war with a fourfold objective:

1. To insure a more effective use of our resources for victory;
2. To provide equitable distribution of the more vital civilian goods and services;
3. To prevent a disorderly rise in prices; and
4. To facilitate a safe return to a peacetime economy.

Each of these reasons is of vital importance to the Nation; together they are all-important. But it is obvious that the first one, "to insure a more effective use of our resources for victory," is the most compelling

one. As we move toward total victory there is bound to be a mounting demand for removal or crippling of controls which may still be needed in the transition period to help us win the peace as well as the war. With victory over Germany won, we now face the first test of our determination to decide the continuance or removal of controls with full regard for all four requirements of our objective.

From now until the end of the Japanese war, we shall be confronted with a set of abnormal and unbalanced conditions marked by—

a. Shortages of many civilian goods, particularly durable and semi-durable goods.

b. Large accumulated purchasing power.

c. Low output of many shortage goods.

d. Surpluses of important raw materials, and of manpower in many places.

The seriousness of these conditions at VJ-day will depend on the length and character of the war and the speed and extent of reconversion at that time.

Shortages will be most severe in the field of residential dwelling and consumer durable goods, the production of which has been restricted or prohibited during the war period. Shortages are expected in such semidurable goods as clothing, textiles, rubber goods, shoes and other leather goods. While food shortages are expected to end earlier, they may continue to be serious in some lines throughout the period.

Where we have shortages, the demands of other countries will accent them. American production facilities will be called upon to help supply food and clothing and to help rebuild the economies of war-ravaged lands.

Shortages will be relieved to some extent by surplus supplies held by the armed forces and other Government agencies. The probable size and composition of such surpluses have been discussed in the CED policy statement *Postwar Employment and the Liquidation of War Production*. Some of these supplies will be suitable to relieve civilian shortages at home or abroad. At the same time care must be taken to see that they are not disposed of in such a way as to disrupt production here or abroad.

In contrast to this shortage of civilian goods, we have an unprecedented total of potential purchasing power available in the hands of civilians. Aggregate savings by individuals since Pearl Harbor have been well over a hundred billion dollars, about half of which is immediately available purchasing power. Many types of family debts, which constitute a brake on spending in ordinary times, have been retired or reduced; long-term farm debts have been reduced by more than a billion dollars.

On the other hand we face some decline in current earnings of workers, and in the aggregate income of the Nation. Even if wage rates are fully maintained, reduction in current income will occur as a result of the elimination of overtime pay, shifts to lower-wage-rate civilian industries, and a drop in total employment from its abnormally high wartime level.

The over-all effect of these influences will be largely governed by the speed with which workers are reemployed, by wage levels, and by general confidence in the future. But there is a strong chance that

rising consumer demand, amplified by the need of distributors to replenish nondepleted inventories, may so exceed quick supply that, without effective price control, inflation might sweep the economy. Even with such control, rapid expansion of production is of utmost importance as the only real protection against inflation.

How speedily high production can be achieved will vary from industry to industry. From a few days to 6 months and more may elapse after the go-ahead has been received by a plant before large-scale civilian production can get going. In the case of most consumer durable goods, such as automobiles, electrical equipment, and washing machines, there will be delay while physical reconversion of plants is under way. With most semidurable and perishable goods there should be little delay, for usually these industries have negligible reconversion problems.

It should be particularly noted that even when war permits a rapid increase in civilian production, there will be a considerable delay between actual production and the putting of goods into the hands of consumers. Much of the first wave of civilian products must go into facilities and a rebuilding of inventories, while high civilian purchasing power will be pressing on the market.

Factors peculiar to particular industries will appear. Reconversion of the construction industry involves, for example, not only the problem of materials and equipment, but the length of time required for building, together with questions of financing, location, and so forth; these may be expected to cause a considerable delay before the supply of homes can catch up with the accumulated demand. But this delay may mean that building will hit its full stride when demand in other lines has begun to taper off, and will thus help combat deflationary influences.

In contrast to the shortage of finished goods, there will be growing surpluses between now and VJ-day in important raw materials, and in manpower. As such surpluses grow, rapid expansion of production is imperative, but no advance time table can be laid down with certainty. The timing, volume, and type of military cut-backs and the length of time between VE-day and VJ-day will be determining factors in the degree of reconversion possible.

Should victory over Japan come sooner than expected—before civilian production could get well started—a longer period of control might be necessary, although some controls would be removed faster. If, on the other hand, a considerable period intervenes between VE-day and VJ-day and the cut-backs are very large, reconversion may have reached such an advanced stage that few controls would be needed after VJ-day.

A long war, while making the process of reconversion gradual and thus reducing the severity of the shock to our economy, would increase and extend problems such as, for example:

Keeping adequate manpower on war production jobs in the face of temptation to switch to civilian work;

Deciding which plants in an industry may reconvert and which must continue in war production;

Determining whether or not and how to allocate still limited materials to competing civilian firms and uses; and

Coping with regional dislocations.

Although the period between VE-day and VJ-day will be a confusing one, this should at all times be kept in mind: war controls exist to serve emergency needs. They should be relaxed or suspended at the earliest moment they no longer serve a definite need. There is a national obligation to have a civilian economy ready to pick up the slack in the interim period, and to shoulder the whole load at the earliest possible moment after complete victory.

Both inflationary and deflationary pressures may plague us. In those fields where there are great surpluses and/or production is excessive with relation to peacetime demands, prices may go down and business failures and unemployment result. In fields which are still short, and where civilian production picks up slowly, strong upward pressures will set in.

Thus concurrently the economy may feel the strain of inflationary and deflationary pressures. Analysts differ as to which of the two will become dominant.

Our greatest danger may actually be: Successive deflation, inflation, and deflation. It is not generally recalled that at the end of World War I inflation did not begin immediately. In December 1918 a sharp decline in prices started. People assumed the economic home front was safe from inflation. Then, when they were unprepared, inflation struck. That inflation, as we have noted earlier, continued until May 1920, when the depression began.

Signs of deflation may appear first and yet be a trap similar to the decline beginning in December 1918. We may drop our guard and be a set-up for later inflationary influences.

Hence the timing and the manner in which controls are to be ended must be coordinated not only with the progress of war production cut-backs, but with probable economic consequences. If deflation should occur and continue, the present controls are not adapted to meet that threat and they could be ended the more rapidly. In that case policy must focus much more on the skillful use of "indirect" controls. This problem is now being analyzed in a CED study on business fluctuations.

Insofar as deflation may affect farm products, it will be treated in a separate CED study on agriculture. But whatever national policy may be needed or recommended by the committee in reference to agriculture, the committee is opposed to a policy of price floors and direct controls of surpluses in other activities. It believes that such controls would perpetuate existing maladjustments, eliminate the stimulus to consumption caused by low prices, and be detrimental to expansion and employment. Ours must be an economy of abundance. Scarcity should not be perpetuated and sponsored.

CONTROLS OVER PRODUCTION

Depending upon the specific need, many different types of controls have been set up on the production front. For example, there have been prohibitions or limitations on the production of less essential civilian goods. There has been allocation or controlled distribution of essential materials and components. Inventories have been reported regularly and limited as to their size. Standardization and simplification orders have served to reduce the number of models manufactured.

In cutting back, each of these may require different handling, but, in general, the committee believes that :

Prohibition or quota limitations on production should be among the first suspended. Action on this by the War Production Board has begun.

When production restrictions are suspended, orders requiring the use of substitute materials should also be ended to the fullest extent permitted by the availability of materials.

The suspension of production controls should be paralleled by the suspension of construction controls, subject to available materials and manpower. Cases of industrial construction which will aid employment are particularly important. They should be facilitated at the earliest possible moment.

Materials and components should still be allocated for military purposes and ample strategic stock piles held until the end of the Japanese war. The military should not have to compete with civilian industry for its supplies.

Allocation controls for civilian production should be ended selectively at any time a serious shortage of a particular material no longer exists, and supply and demand come close enough in balance to remove danger of inflationary price levels.

Inventory limitations should be suspended by administrative action as soon as the supply of the particular materials or product is sufficient to remove allocation controls. As long as there is any threat of inventory hoarding, however, it is desirable that some form of inventory reporting be required to permit authorities to spot this potent symptom of inflationary pressure.

It must be borne in mind that ending controls will not, in itself, create high production. So long as there are existing shortages of certain materials, the freedom of civilian industry may in some cases be more illusory than real. In many fields, however, there will be a progressive easing of important materials, and VJ-day will bring surplus. And even where needed materials are short, the use of ingenuity and resourcefulness by industry will often lead to acceptable substitutes.

The pattern between VE-day and VJ-day will present such difficult problems as these :

a. Materials may be available when production facilities and manpower are still tight; or both materials and facilities may be available while manpower is still short, or vice versa. Local or regional shortages of labor may exist concurrently with a national manpower surplus. These situations present various problems. No simple rule can be given to solve them.

b. Materials, facilities, and manpower may be available in limited amounts which are far less than needed to fill the combined war and civilian demand. This would impose difficult problems of establishing limited production quotas for some industries and for units of an industry.

Policy in this period must prevent a competitive scramble for scarce materials, which might have dangerous effects. Such a scramble might interfere with military needs. Small business would suffer in comparison to large. The pressure on the price structure might prove irresistible.

PRICE CONTROLS

If price controls were suddenly ended while supplies were still inadequate, prices might soar chaotically to inflated levels. If the wartime pattern of prices were rigidly maintained, existing maladjustments in costs and prices would retard postwar business expansion.

Prices hold a key position in the whole control problem.

The heart of the committee's views on the administration of price controls is expressed in the following sentence from the report:

General price advances should be resisted, but prompt adjustment should be permitted prices which deter production because they do not bear a reasonable relation to cost at normal levels of production.

The objective should be a level of prices high enough to induce the required expansion of production and employment, and at the same time low enough to maintain the necessary consumption under normal conditions of demand and supply.

The individual producer who cannot produce profitably at ceilings which are adequate to draw out most of the volume of an industry should be afforded relief through administrative action, but the price level of the industry should not be fixed for him.

The more nearly the objective cited can be reached in the period between VE-day and VJ-day the better. The attaining of this objective under price control will depend not simply upon price administration, but also upon materials, facilities, and production during the control period.

CONSUMER DURABLE GOODS

Production of consumer durable goods is now being resumed. Because many of these have not been manufactured since 1942, there will be a tremendous demand which will threaten to force prices upward. Control of prices must continue in that period, and as much longer as it may be needed.

Prices, of course, must be related to existing cost levels rather than prewar cost levels, but it is important prices be set on the basis of long-run rather than short-run expectations as to cost and volume. The goal should be a scale of prices as low as possible, which will stimulate a high rate of consumption and still allow a reasonable margin of profit to encourage high production. This will provide the most stable prospect for production and employment in postwar years.

Manufacturers and distributors should not be permitted to increase their prices—on a supply and demand basis—to take advantage of the temporary shortage of supplies and the large accumulated demand.

PERISHABLE AND SEMIDURABLE GOODS

Price policies on perishable and semidurable goods are much more subject to short-run influences. Among these goods are food and clothing and others which represent basic necessities of living. Price stabilization in these areas has, therefore, a greater social importance than in the case of more durable goods.

What can happen in the case of food products is well illustrated by the gyrations in the price of raw sugar in World War I and after.

From a low of 4.99 cents per pound in 1918, it rose to 22.56 cents per pound in 1920 and then collapsed to 2 cents per pound in 1921.

Price ceilings on many perishable and semidurable articles will probably be necessary for some time after the war. Such price ceilings should be raised when it is clear that they are lower in relation to current costs than a stable level of peacetime prices would justify.

RENT CONTROLS

Rent controls should be liquidated as soon as practicable. Nevertheless they may be necessary in some areas for a longer period than now seems needed for most other controls.

When private building can be resumed, policy should be liberal enough to stimulate new construction and to encourage improvement and modernization of existing structures. At the same time, if any more-than-normal gap appears between the cost of new construction and rent levels, it should not serve as a basis for upward revision of rents on already existing housing.

Continued control after the war will be necessary in areas where housing remains acutely short. Under such conditions, ending of rent control would prove inflationary and chaotic. Action to end rent controls should take place on a local rather than on a national basis, and controls should be ended in any area as soon as serious shortages disappear.

CONSUMER RATIONING

As long as fighting continues anywhere, some rationing will be necessary. Even after all fighting is over, it may not be advisable to end rationing at once clear across the boards. Immediately after the war there may be heavy enough shortages of durable and semidurable goods to require some measure of rationing for the fair sharing of such goods.

Rationing, moreover, aids effective price control by reducing or eliminating the excess of effective demand over supply, thus reducing the strain on ceiling prices.

The committee, therefore, recommends that—

a. Formal rationing of consumer goods continue wherever serious shortages exist.

b. When shortages cease to be severe, particularly in nonessential products, formal rationing methods give way, in advance of the removal of price control, to informal dealer-controlled rationing.

Informal rationing has two points to recommend it: First, formal rationing will probably be increasingly difficult to enforce as the end of the war approaches, and still more difficult after the fighting stops; second, in the case of many articles, the American people are likely to prefer some inequity to the continued red tape or formal rationing.

MANPOWER CONTROLS

The application of manpower controls should end at any time from now until VJ-day in any area where the need for them disappears. Because of wide variation in local conditions they were set up on an area basis after consultation with local management-labor committees. For the same reason they should be ended in the same way.

Much of the work of the War Manpower Commission lies in the field of facilities and services rather than legal controls—as, for example, the United States Employment Service and the several training programs for war workers. These will continue to be useful in the reconversion period. Their role will be discussed in another CED study on Manpower Demobilization and Reemployment.

WAGE CONTROLS

The committee believes that while price controls continue, it will be necessary to apply hold-the-line standards to wage rates wherever the threat of inflation is clearly demonstrated. If wage controls were first removed, the pressure for wage increases would be directed primarily against the mechanism of price control. It is doubtful whether the price-control mechanism could stand the strain. In making this recommendation, the committee wishes this to be clear: It does not either recommend or oppose any particular formula or interpretation of hold-the-line standards. Those are questions to be determined by the Government in terms of the facts in the particular case.

During reconversion, wage controls should be more flexibly administered, but within the framework of a defined Government policy. Increased freedom should be provided for independent employer-employee decisions consistent with that policy. General wage advances should be resisted, but prompt adjustments should be permitted of wage rates which are out of line.

Flexible administration is of the utmost importance to civilian industry to enable it to reach high production in the shortest possible time.

The number of decisions which must be made, and made quickly, will be great. Workers will shift jobs, old jobs will be redefined. Pricing policies will have to be established, staffs built up and trained for production and for distribution of products. The review and approval of all these actions would be a tremendous administrative job, even for the most efficient and fully accepted Government agency. The greatest speed will be achieved if these decisions are left as broadly as possible to individual establishments to determine on the customary basis. To require prior approval of wage increases by a Government agency would occasion delay that might retard production, cause continued shortage, and thus threaten inflation instead of preventing it.

Finally, wages in the peacetime economy should be determined under conditions of free collective or individual bargaining within the framework of peacetime labor laws.

The Economic Stabilization Act provides authority to prevent wage-rate decreases as well as increases. The power to prevent such decreases should be exercised up to the time the controls are abandoned whenever such decreases would have a deflationary effect.

EXPORT AND IMPORT CONTROLS

At least until high production has relieved domestic shortages of civilian goods, some control over exports should be maintained.

Although it seems clear that this country should adopt a generous attitude in the matter of foreign relief and rehabilitation, the volume

and type of such exports should be gaged carefully in relation to domestic supplies and should not be permitted to become a serious factor in promoting price inflation.

The control over imports during the war has been much less rigid. They have been restricted largely by the availability of shipping. When the war ends, every effort should be made to encourage a revival of our import trade, as means of checking an inflationary rise in prices.

DIRECT FINANCIAL CONTROLS

Direct financial controls have been applied during the war to limit the use of credit for the purchase of civilian goods. Thus, the use of charge accounts has been restricted, selling on installment credit has been sharply curtailed, and the use of bank credit for consumer purchases has also been restricted.

The committee believes that all these controls should be continued until the war ends on all fronts. After VJ-day their retention will still be advisable if there are serious shortages of durable goods.

INDIRECT FINANCIAL CONTROLS

An important function can be served by the use of indirect financial controls during the transition period. If dangerous inflationary pressures arise, it would seem desirable to maintain Federal taxes at relatively high levels so long as this danger exists. A similar check to consumer purchasing power could be provided by continuing the wartime bond-selling campaigns during the early stages of transition, supplemented by a vigorous educational campaign to promote bond holding.

As soon as inflationary forces are clearly under control, taxes should be sharply reduced as a stimulus to purchasing power and to business expansion. (This has been discussed in the CED policy statement, *A Postwar Federal Tax Plan for High Employment*.)

If such a program is to be effective, it will require careful advance planning by the Congress. Thus, the Congress should prepare and announce at the earliest possible date a program for postwar Federal tax revision. The advance announcement of such a program would stimulate both business action and consumer demand. The actual tax reduction itself would stimulate them a second time. The plan should be ready to put into effect at a time when tax reduction would provide an important check to deflationary influences.

THE ENDING OF CONTROLS

One type of extremist will tend toward the ending of controls too early for the sake of freedom of action all along the line. Another type of extremist will tend to cling to controls because he cannot foresee the full consequences of giving them up. The adoption of either extreme view could be disastrous. As reconversion progresses and when fighting ends, pressure for complete removal of controls will undoubtedly grow greater, and even where controls are plainly needed and remain they may be emasculated and rendered ineffective.

No control should be relaxed or ended until it can be done without jeopardy to any phase of war production, but on some controls—

production controls, for example—action must not wait beyond that, if high civilian production and employment are to be reached at the earliest possible moment. Other controls, notably those affecting prices, may have even an increased importance for a period after production controls are ended.

The committee recommends the following procedure for the ending of controls:

From the present until 6 months after final victory, controls should be removed by administrative action only, wherever the need for them no longer exists. During fighting each such suspension must be justified by cut-backs or surpluses which make facilities, materials, and manpower adequately available over full military needs.

As controls are interdependent, their administrative suspension must be effectively coordinated. Piecemeal action by separate agencies subject to conflicting pressures would not produce an orderly demobilization. Adequate powers have been given to the Director of Mobilization and Reconversion to control such suspensions.

Within six months after final victory, the Director of Mobilization and Reconversion should review all controls and should, not later than six months after victory, remove all remaining controls not clearly necessary beyond that date. A period of six months after final victory will permit substantial reconversion, and will also coincide with the expiration of some of the President's emergency war powers.

Legislative authority should be continued or extended beyond that date only for such wartime controls as may be plainly needed to hold inflation in check during the remainder of the transition period. The legislative authority should not, however, be exercised except as determined by the Director of Mobilization and Reconversion.

At the end of the transition period as determined by Congress, legislative authority for the last of the wartime controls should be ended.

The recommended procedure would end, reduce, or modify most controls before or by six months after war's end. Yet it would keep us prepared for prompt preventive action if "economic fires" broke out later in the transition period.

National policy on the ending of controls should be clearly stated at the earliest possible time. The American people should be informed that such policy aims at the complete ending of all wartime controls within a limited period of time.

The CHAIRMAN. Thank you for a very informative and exhaustive statement, Mr. Rubicam, on this controversial and difficult problem of release of controls.

As I followed your statement, this is one thing that I think we are pretty generally in accord on in this committee and that is the necessity of doing away with these controls as soon as possible as an incentive to business and economic recovery. As I get the full gist of your statement, and I am pretty largely in accord with it personally, we should relinquish these controls as rapidly as possible without interfering in any way with the war effort.

Then when you get down to a discussion of the day, the hour, the time when these controls are to be released, you seem to have the same difficulty that most of us have in fixing the hour. For instance, on rent controls, you stated that it is your opinion that these controls should be released on a local rather than a national basis. I do not know that I could improve upon that and yet I recognize this difficulty: whenever you leave it to the discretion of an administrative agency as to when it is to be released rather than by an edict of the Congress, the danger, it seems to me, is always present of that agency trying to hold on and perpetuate itself.

I am in accord with the statement that they cannot all be cut off but bearing in mind that the Congress provided in most of these war powers, war controls, that they should terminate in six months after final victory, I am just wondering whether that can be improved upon or not.

That is just a rambling expression of apprehension.

Mr. RUBICAM. We agree substantially as to the last statement you made on the ending of controls.

The CHAIRMAN. Yes. What I am trying to say is in the final analysis, are we not going to have to say beyond a certain date all these controls must be eliminated?

Mr. RUBICAM. The determination of the end of the transition period should be a determination by Congress.

The CHAIRMAN. Yes.

Mr. RUBICAM. The recommendation here is that individual controls be removed and relaxed as necessary to aid reconversion. We recommend further that six months after the end of the Japanese war, as a double check on the administrators, the Director of Mobilization and Reconversion examine all controls and cut off any remaining after that examination which in his opinion are not needed.

The CHAIRMAN. I wonder if this would not simplify it. Are we in accord with this, that there should be a final date fixed by Congress beyond which the controls should not go? Pending that, the time between the victory and the statutory limitation, the Director of Mobilization should have the discretion to remove such controls.

Mr. RUBICAM. That is right.

The CHAIRMAN. Mr. Zimmerman, do you have some questions?

Mr. ZIMMERMAN. I was going to ask the witness if, in their study, they gave consideration to the time limit fixed by Congress in the establishment of most of these restrictions that you have been talking about?

Mr. RUBICAM. Insofar as we knew those in detail we have, yes.

Mr. ZIMMERMAN. I think I have been a member of this body ever since the war started and I think we sought to fix a definite date for the termination of all these controls.

Mr. RUBICAM. As I understand it, the termination date varies. For instance, the one under which the OPA operates is up for extension now.

The CHAIRMAN. If you will pardon the interruption, the OPA is now in process of being extended for 12 months.

Mr. ZIMMERMAN. I understand that is true, that some of them have been extended from time to time.

Mr. RUBICAM. That is a case in point. Our recommendation, as applied to OPA and its authority, would mean that we would be in favor of renewal of that authority. We would actually be in favor of the retention of legislative authority for price control until six months after the end of the Japanese war. That authority need not be granted for the full length of time at once. We testified in favor of a renewal of at least 1 year without amendment, our feeling being that a renewal for less than 1 year would indicate a loss of belief by Congress that price control was essential.

Mr. ZIMMERMAN. And would reflect on the public.

Mr. RUBICAM. And would reflect in the public mind, unquestionably.

Mr. ZIMMERMAN. Do you think that is a matter that Congress has got to give consideration to as the time arrives and confronts them? I take it that is your recommendation.

Mr. RUBICAM. Yes, we believe that the final decision should absolutely be in the hands of the Congress.

Mr. ZIMMERMAN. And it is a matter that Congress will have to work out?

Mr. RUBICAM. The final termination date in each case.

The CHAIRMAN. Anything further, Mr. Zimmerman?

Mr. ZIMMERMAN. That is all.

The CHAIRMAN. Mr. Wolverton.

Mr. WOLVERTON. Mr. Rubicam, I note that the committee which made this study does not seem to include any representatives of labor or agriculture. What explanation do you have for that? It would seem to me that those two elements are very important elements in arriving at a decision as to what is to be done with respect to controls.

Mr. RUBICAM. That is a good question and I will answer it to the best of my ability and maybe Mr. Myers will supplement my statement. CED is an organization of businessmen to take the kind of voluntary action that businessmen can take to help achieve high levels of productive employment. Therefore, the members of the committee are all businessmen. However, representatives of labor attend all of the meetings of the Research Committee and take part in all discussions.

We almost invariably have a representative of both the CIO and the AFL present. They see all of the materials at all stages. They are free to express their opinions on any subjects. We have, as a matter of fact, been more willing to have them than they have been to come. In the earliest days, they did not respond too readily to the invitation. That has changed. They apparently have acquired more confidence in CED, and they now attend all our sessions.

With respect to the situation in agriculture, I know that agricultural representatives are wanted in the committee meetings. I have heard discussions of that subject. I do not know whether any have been asked to attend and if they haven't I do not know why; but it is not an unwillingness on our part to have members of such organizations sit in on discussions.

Do you know what the status is there, Mr. Myers?

Mr. MYERS. They have attended a number of sessions—not all, I think, but all those where the subject under discussion had any reference to agricultural policies—those particularly and some others as well.

Mr. RUBICAM. May I add one thing, that not too long ago we had a press conference here in Washington on this subject of controls, Paul Hoffman and I, an economist of the AFL, Mrs. Page, attended the press conference and voluntarily made the observation that these decisions had been taken in her presence and with her participation.

Mr. WOLVERTON. Am I to assume from what you have said that the conclusions that appear in this booklet entitled "Postwar Employment and the Removal of Wartime Controls" and the statement which you have made to the committee this morning are concurred in by labor and agriculture?

Mr. RUBICAM. I could not make that statement, no. I do not know of any official endorsement of these statements by leaders either of labor or of agriculture.

Mr. WOLVERTON. I think that is a very important consideration.

Mr. RUBICAM. So do we.

Mr. WOLVERTON. There is a distinction between being given the privilege of participating with a group in a discussion and the decision the group may arrive at which may be entirely different from one that I would be in favor of.

Mr. RUBICAM. I would suggest that you ask them.

Mr. WOLVERTON. The mere fact they were enabled in some instances to participate in your discussions does not mean a thing to me in the absence of concurrence of established representatives of those industries in the conclusion that you have reached. If we may get at it a little bit more intimately, who participated on the part of labor in these discussions with your business group?

Mr. RUBICAM. The regular participant for the AFL is an economist, I believe, named Mrs. Page. The regular participant for the CIO is an economist whose name Mr. Myers may be able to furnish.

Mr. MYERS. Robert Lamb and Lincoln Fairley. Mr. Meany and Mr. Carey have also been invited and have attended some sessions.

Mr. RUBICAM. Those representatives, sir, are not of our choice. In other words, we would be delighted to have Philip Murray and William Green attend our meetings.

Mr. WOLVERTON. What do you mean when you say they were not your representatives by choice? You do not mean to infer that you were displeased?

Mr. RUBICAM. No; I mean we did not select the individuals.

Mr. WOLVERTON. That is what I thought you meant.

Mr. RUBICAM. Their presence was definitely by our choice.

Mr. WOLVERTON. Was the request submitted to Mr. Murray and Mr. Green?

Mr. RUBICAM. I am sure they have been invited repeatedly to attend any meetings of the CED research committee.

Mr. MYERS. That is correct.

Mr. RUBICAM. We took the initiative in inviting labor representatives. Mr. Carey, of the CIO, in a speech at a CED meeting, referred to the earlier invitations of Mr. Hoffman to him and others to attend the CED meetings and admitted his reluctance to attend at that time, questioning perhaps the stability or maybe the conclusions of the group. He also testified to a change of mind on his part and said he thought we were doing excellent work and that we could look to him and his associates for any reasonable help they could give. That is the nearest thing I know of to an endorsement of the CED work by any labor official.

That would not apply, however, to every conclusion in this report.

Mr. WOLVERTON. No, I should say not. I would understand from that statement that they generally approve of the effort that is being made but that they do not necessarily agree with the decisions that have been reached.

Mr. RUBICAM. That is true of our own local chairmen and local committee members, as we say here. There is no way we can get the agreement of all businessmen to this, either.

The job of making these studies and stating policy for CED has been delegated to the research committee by the CED trustees.

Mr. WOLVERTON. Who are the representatives of agriculture who have participated?

Mr. RUBICAM. Mr. Myers, can you answer that?

Mr. MYERS. I do not believe I can. I know Mr. Hutson of Mr. Vinson's office has been in a time or two.

Mr. WOLVERTON. I did not have in mind any Government official. I had in mind the recognized agricultural groups of this country. Did they have any representative participating?

Mr. MYERS. Mr. Chester Davis and Professor Schultz of the University of Chicago met with that group several times but I have not attended those meetings and I cannot state who was there.

Mr. WOLVERTON. The gentlemen you have mentioned have knowledge of agricultural matters, but you would not take it that they were in a position to speak for agricultural organizations in this country, would you?

Mr. MYERS. No.

Mr. WOLVERTON. That is what I am trying to understand, as to whether the representatives of labor and agriculture have been given an opportunity to participate to the extent that you would say that the statement which has been made here this morning or that appears in the pamphlet represents their views and I take it you do not take that position.

Mr. RUBICAM. No, we do not.

The CHAIRMAN. Would you just yield for an observation there, Mr. Wolverson?

Mr. WOLVERTON. Surely.

The CHAIRMAN. Of course, I think we are all in accord that all these elements of our economy must be considered—yet, and I am not trying to come to the aid of a representative of the CED this morning, but as I understand it the CED is an organization made up of businessmen to make recommendations upon the economy as they see it just as labor has its organizations, agriculture, and so on. I think that all of that must be taken into consideration.

Mr. WOLVERTON. Mr. Chairman, I hope that nothing I have said or have indicated by my questions would in any way give rise to the thought that I do not think it is important to have the viewpoint of this organization of businessmen, but from the standpoint of a committee of Congress that makes recommendations on this important matter, I feel that our discussion of the subject or our consideration of the subject should be broad enough to include not only the businessmen's viewpoint but the viewpoint of labor and agriculture.

I say that preliminary to a suggestion or request that I was going to make and that is that we make some effort to have before this committee outstanding labor and agricultural interests to testify with reference to this important question.

I have pending with me, as a result of a meeting with the International Shipbuilders Union, requests that they be given the opportunity to appear before this committee and give their views with respect to postwar employment in the shipbuilding industry. I have sat on

this committee a long while and I have heard a good many businessmen come before us.

I have never heard a businessman yet who could give us any solution of the shipbuilding situation. There are thousands of employees in that industry today that the future does not look very promising for and I think that they should have an opportunity to be heard and I hope you will provide for that.

The CHAIRMAN. Will you pardon me, Mr. Wolverton? Of course, the distinguished gentleman from New Jersey recognizes that I would not undertake to limit his line of questioning of the witness or any other member of the committee. I just thought that my observation there might be helpful.

So far as hearing from labor and agriculture on these problems is concerned, we have set up subcommittees to hear from those people. Not only that, but one of the first things that was done when this committee was set up was to invite the heads of both the AFL and the CIO to appear before this committee and Mr. Green of the AFL has appeared as a witness.

So far, we have never been successful in getting the head or a representative of the CIO to appear before the committee. We recognize the importance of labor's point of view and we certainly want to hear it and we are going to continue to hear from these various groups.

The point I was trying to make to my learned friend was that, as I conceived it, this witness is a representative primarily of a business group and that we were getting the point of view of that group.

Mr. FOLSOM. I would like to say that we have asked Mr. Golden of the CIO to appear and he has accepted. We had hoped he would be here tomorrow but that date was not acceptable to him.

Mr. ZIMMERMAN. Pardon me for interrupting at this point but do you not think it would be well to have some representative of the Grange here before the committee?

Mr. FOLSOM. We thought the subcommittee for agriculture might go into that.

Mr. ZIMMERMAN. That is dealing with a postwar period. This is a matter for immediate consideration, as I take it. It is a problem that is facing us and which we hope will face us right soon.

Mr. RUBICAM. Between now and the end of the emergency is the time this report deals with.

Mr. ZIMMERMAN. You can see our committee is not so much concerned with present conditions as that we are trying to do something for a postwar period, the period following the war.

Mr. RUBICAM. This, however, is important as a basis or as a springboard for the postwar period.

Mr. ZIMMERMAN. I think perhaps during this hearing we should get the views of some of the men on the things that Mr. Wolverton has brought out.

The CHAIRMAN. May I make this observation and then I will turn it back to Mr. Wolverton? As far as the Chairman of this committee is concerned, if we can keep these members here and get them to attend the meetings, I am perfectly agreeable to continuing these hearings right on now pending the recess and during the recess. I do not want to cut off anybody and I am sure that is the reaction of our staff. We will try to get the broad picture from everyone.

Mr. ZIMMERMAN. Let us not take up all of the recess for the hearings.

The CHAIRMAN. That is the trouble we run into.

Mr. WOLVERTON. I am sorry. Go ahead. We do not differ on this.

Mr. WOLVERTON. I was just about to say that I am certain that the Chairman and myself do not differ in any respect on the objectives we are seeking. I merely sought to emphasize or to first ascertain that this was a businessman's viewpoint and I thought it equally important to have before this main committee the testimony of witnesses from the labor and agricultural organizations of the country in order that we might have a full picture.

That does not in any way discount or discredit the viewpoint that has been expressed on the part of business but it is merely done in an effort to supplement the viewpoint of the businessmen.

The CHAIRMAN. Then I helped you to emphasize that.

Mr. MYERS. Could I make a comment on the committee's position here? As Mr. Rubicam has indicated, the committee has been anxious to have representatives of both labor and agriculture attend the sessions but, of course, it does not purport to speak for either labor or agriculture. I think it is proper to say, from the viewpoint of the committee, that the committee would feel it would be highly desirable for both labor and agriculture also to study these problems and to bring forth their recommendations independently and that this would be followed by the interchange of ideas and discussions with the hope that the wisest possible policy could be evolved by the Congress.

Mr. WOLVERTON. I do not think there is any question of that.

The CHAIRMAN. That is exactly what we are planning to do.

Mr. RUBICAM. I came in here fully believing it would be your procedure to hear from labor organizations and organizations of agriculture. We are frankly an organization of businessmen and, as a matter of fact, our first purpose is not the making of such studies as the one dealt with this morning. Our first job is the stimulation of action and planning by businessmen to create employment. That leads, however, to the making of studies to arrive at the policies which will aid effective action. That is really the way the emphasis should be.

Mr. WOLVERTON. I agree entirely with the statement the Chairman made when he stated that your organization had performed a very great service in dealing with that. This committee is appreciative of these important matters.

There is another organization, if I remember correctly, and I am sorry I cannot think of the exact name but it is composed of representatives of business, representatives of labor and representatives of agriculture. What is the name of that organization?

Mr. FOLSOM. That is the National Planning Association and that is the group we were anxious to have here tomorrow. We were going to have Mr. Golden, who represents the labor group and we wanted someone from business and agriculture but we have not been able to get a date on which they can come, but we have them definitely in mind.

Mr. WOLVERTON. They have some very outstanding representatives of labor, agriculture, and business in that group.

Mr. FOLSOM. And Mr. Golden was the man who was going to represent labor.

Mr. WOLVERTON. I do not want any misunderstanding about whether Mr. Golden speaks for labor or not. I think we had better

contact the heads of labor organizations which would be Mr. Green and Mr. Murray and the head of the railroad brotherhoods, possibly, and Mr. George Harrison.

Mr. FOLSOM. All we were trying to do with the first witnesses was to give the committee a broad, over-all picture of the whole thing and then we will go on down the line.

Mr. WOLVERTON. Please do not think I am critical of the method you are pursuing. I am trying to make certain it covers every element.

In view of the purpose to broaden the inquiry sufficiently to include the viewpoint of these to whom I referred, I do not think at this time I should take any further time in going into the matter in this particular statement. I think it shows a great deal of study and I must confess it leaves me somewhat like Alice in Wonderland. It has so many implications and so many suggestions and so many possibilities that I do not feel that I am in a position to find my way out this morning from the standpoint of congressional action so that I shall give it further study.

The CHAIRMAN. Mr. O'Brien, do you have some questions?

Mr. O'BRIEN. No.

The CHAIRMAN. Mr. LeFevre.

Mr. LEFEVRE. Mr. Rubicam, I am wondering when the Congress should announce a definite date when all controls will be released, would there not be a tendency on the part of industry to build up huge inventories for the time when such releases are off? What effect would that have throughout the country?

Mr. RUBICAM. I do not know that working out the formula laid down here would include the announcement of a final date far in advance. What we refer to when we speak of advance announcement is the advance announcement of the formula which would guide the termination of controls.

In other words, beyond the date, 6 months after the Japanese war, we do not believe you can tell the exact date on which the last control should go off. You could not tell that very early. This is a recommended procedure which we hope will at least, stimulate the thoughts of others, and will direct attention to the need for coordination and over-all planning regarding the removal of controls.

This may not be the exact formula that you decide is the right one.

The CHAIRMAN. Is that all, Mr. LeFevre?

Mr. LEFEVRE. That is all.

The CHAIRMAN. We have Mr. George present who is a recent addition to our staff on this subject.

I wondered if you had some questions, Mr. George, that you would like to ask.

Mr. GEORGE. I do not know that it would be useful at this time. They run into detail that the committee might not have time to examine very closely.

On the general point of inventories, a great many people are sensitive to that danger. I have no idea, of course, what WPB policy is going to be in the interim period but I know there is apprehension lest the removal of controls would lead to the accumulations you speak of and would have the effect of diverting materials urgently needed by consumers and industry so that I suspect the policy of retaining

inventory controls up to the end of VJ-day, at least, is being very seriously considered.

I do know that industry, generally, seems to feel more sympathetic to that policy than to many of the others that are more controversial. They are aware of the danger as well.

There are many detailed questions, Mr. Chairman, that of course come to mind but I am not sure that you want to go into them now.

The CHAIRMAN. In view of the fact that it is time for the House to convene, I am apprehensive that we would not have time to go into a detailed discussion so if there are no further questions, we will adjourn.

Mr. Folsom, do you have anything further?

Mr. FOLSOM. No.

The CHAIRMAN. We extend our thanks and deep appreciation to you, Mr. Rubicam, for your courtesy this morning and for this statement that reflects so much study.

Mr. RUBICAM. I want to thank you, Mr. Chairman, for the opportunity to come.

The CHAIRMAN. We are very gratefully to you.

The committee will stand adjourned until call.

(Whereupon, at 12 noon, the committee adjourned, subject to call of the Chair.)

POSTWAR ECONOMIC POLICY AND PLANNING

WEDNESDAY, JUNE 27, 1945

HOUSE OF REPRESENTATIVE,
SPECIAL COMMITTEE ON POSTWAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met, pursuant to notice, at 10:15 a. m., in room 1012 New House Office Building, Hon. William M. Colmer (chairman), presiding.

Present: Representatives Colmer (chairman), Zimmerman, Gifford, LeFevre, Simpson, Reece, Wolverton, Voorhis, Murdock, and Hope.

Also present: Marion B. Folsom, staff director, and Edwin B. George, consultant for the committee.

The CHAIRMAN. The committee will come to order.

In furtherance of the investigation that the committee has been conducting with reference to the ultimate removal of wartime controls, we have Mr. Chester Bowles, head of the Office of Price Administration.

Mr. Bowles, we are grateful to you for appearing here this morning. We realize that you must be a very busy man.

Off the record.

(Discussion off the record.)

The CHAIRMAN. Now, this may be either on or off the record. We realize that you have a very hard job, and I am sure the country does also. I might say off the record——

(Discussion off the record.)

The CHAIRMAN. Mr. Bowles, of course you understand that the purpose of these hearings has nothing to do with the current operation of wartime controls by the Office of Price Administration or anyone else. These hearings are primarily being conducted, I might say exclusively being conducted, on the subject of the future of these controls. I think the whole Congress, and I am sure that you join us, hopes it will not be too long until we can get rid of all of these wartime controls. I am sure, personally, you would welcome that day.

We have asked you, in the light of your experience, to come here this morning to give us your views upon just how soon these controls, with particular reference to your own Office of Price Administration, could be eliminated. We realize they could not be eliminated now.

So we would appreciate hearing your views in your own words, and take such time as you see fit.

STATEMENT OF CHESTER BOWLES, PRICE ADMINISTRATOR

Mr. BOWLES. I very much welcome the opportunity of coming up here. I have been very much impressed with the work you are doing and think it is tremendously important.

We have a complicated economic system built up over a period of years. I think a few people understand its complexities—I doubt whether anybody understands them thoroughly—but the greater public understanding of what we can make work or fail to work, the more likely we are to get the higher level of employment after the war, which we are chiefly interested in.

In thinking of price control we have to distinguish pretty much between what is theoretically right and what is practically right, and finally, what is possible. We have those three divisions. You can write a treatise on price control and its functions, and the length of time it should be necessary to maintain a relatively stable level of prices, and that might be quite out of line with the practical situation of what you can do or should do.

In other words, your theoretical outline of the problem might lead you to keep price controls regardless of other factors in the economy. While the price controls might theoretically be kept for that period, at some point they will interfere with other functions of the economy, either psychologically or actually so they may do more harm than good, even though theoretically you can prove they are advisable.

Finally you have the question. What can you do? Can you maintain them even as long as practically necessary? We are very weary of the war. If you go out and make a speech somewhere and talk about how we are going to lick those Japs, everybody will cheer, but many people, either secretly or openly will say "After all, we are pretty well along and we can go back to our normal way of doing business."

The fact is we have a big war left, but in some way we do not quite recognize it. We have had a much greater dose of bureaucracy and regulation than has ever been instituted in this country, and we are anxious to get rid of it and are tired of it and would like to get out from under red tape.

You have all of that background to operate against, and with that background I would like to go back a bit and discuss what our problems have been and what they are likely to be.

I think we all understand why the controls have been necessary. You have had a great distortion of the supply of goods available to consumers, and on the other hand you have the amount of money on hand to buy with. Actually our program has been tremendously helped by the amount of production we have had. I can remember in the winter of 1942 it was stated we could not have all-out war production and at the same time have more than \$40,000,000,000 or \$50,000,000,000 of goods for civilians. Actually, the experts were wrong. We have had all-out production and also \$95,000,000,000 of civilian goods and services available. It is nowhere near enough, however, to meet demand.

Putting these controls in was difficult. No one knew how to do it. There was no trained personnel. People did not thoroughly understand the need for it. In the handling you were bound to step on

people's toes. You had to say no probably 10 times to every time you said yes, and that is a difficult and unpleasant business. Nevertheless, I think so far we all have a right to feel somewhat proud of what has been accomplished.

I say "we all." Certainly it is not alone the OPA. If Congress did not want the job done, it could not have been done, and if the general public had not wanted it done, it could not have been done. So I think it is a tribute to the good sense and sanity of the country that we have been able to go this far.

We are now approaching a different period, the period of reconversion. I think I should point out that reconversion, as far as inflation control is concerned, begins with your first real cut-backs from war production, and extends until you get supply and demand in reasonable balance. The Jap war is a step in that direction. It will hurry up the day when you can get full production moving faster. The Jap war does not mean the inflationary danger is necessarily ended; you are simply taking that one big step closer to getting production to a point where you can get rid of controls.

I might review what happened after the First World War. As you know, we had controls in the last war that were quite mild. The increase in industrial production only amounted to 25 percent, and strangely enough, in the last year of that war industrial production actually dropped 1 percent. I have been told by several businessmen that one reason it dropped was that businessmen were completely in the dark as to what their prices were going to be in many areas; there was a scramble for inventories, controlled in some areas to a degree, but not at all in many others. Businessmen had no idea of what their costs would be, and there was a general scramble that was destructive to consistent planning.

In any case, we had big price increases before the war ended in November '19, in practically all fields, but what is less well understood is that about 40 percent of your World War inflation came after the Armistice.

Immediately after the Armistice there was a sag in some prices which led people who had been fearful of inflation to feel the danger was pretty well over and controls could be wiped out. They were wiped out in 6 weeks. The sag in prices continued through the winter of 1918-19 until about March. During that period industry was reconverting to peace and getting their plants started again, and about in March began an inventory scramble. I used to know salesmen who had a way of going around, perfectly legitimately by all standards of selling, and saying, "There may be a price increase this fall and you fellows will be smart to buy a carload instead of a quarter of a carload; I want to protect you." So that happened on a huge scale beginning in March 1919, and business began to lay in inventories at a huge rate, guarding against the price increases they felt were coming, and, of course, the price increases came. You had a scramble for inventory at retail, wholesale, and manufacturing levels. Any man who could build up an inventory would find it worth more money each month; the more goods you could get, whatever you were using for manufacturing, the better off you seemed to be. Even those who feared the inflation felt that their best hedge was to get in inventories.

Of course, that drove prices up rapidly. In May and June 1920 we had a period where prices started to fall extremely rapidly and you had an inventory loss of \$11,000,000,000. It hit small business particularly hard because small business had not had the purchasing power and capital funds to get in on this buying early. Manufacturers and wholesalers would rather sell to big customers, so the little fellows began to get in on it for the most part in March, April and May of 1920, with the result that they bought pretty well at the top, and the crack hit them hard.

There were 106,000 bankruptcies within the next couple of years. Factory pay rolls fell 44 percent and there were 5½ million unemployed. It hit the farmer very hard. He had a 66 percent drop in farm income, and there were about 430,000 farm foreclosures in the period of the next 2 or 3 years.

We recovered from that and moved ahead again in the rather nervous prosperity of the later 1920's, until the final crack-up in 1929.

I do not think there is much question that the inflation and the savage deflation that followed set us back at least a couple of years in getting set after the war. This time, of course, your problems are infinitely greater. We have, first of all, a 116 percent increase in industrial production as against 25 percent in the last war.

MR. VOORHIS. How much?

MR. BOWLES. 116 percent. Your farm production increase the last time was only 10 percent, whereas now it is 35 percent. I think the farmers have done a terrific job in this war. The increase between 1914 and 1918 was only 10 percent, and in this war from 1939 until now, it is 35 percent.

You have also piled up substantially more in the way of savings and liquid assets all through your economy. It has been roughly estimated that these liquid assets total \$320,000,000,000. That is the figure the Federal Reserve has used. The cost of the Jap war, as now programed through this year, will be double the cost of the whole of World War I. That cost will be roughly \$60,000,000,000, the estimated cost of the war through the next fiscal year. The cost of World War I was only \$32,000,000,000.

So you get some idea of the different type of situation we are dealing with this time. At that time your inflationary drive was terrifyingly great. On the other side of the ledger, however, we have much greater productive ability, and production will be the final answer to inflationary danger. We can turn out goods faster and build up production quicker and that tends to help neutralize the far greater inflationary crisis we are facing.

We have stated and will continue to state in every way we can that the main thing we have to get is production, but we have to get it while at the same time not throwing away our price levels and going into an inflationary spiral in order to get it. Certainly, to do that, will not pay us anything. We have to steer our way very carefully, doing all we can to make sure our program is securing all we can get in the way of production. I said the other day, and I think we will live up to it, that while there will be a lot of bottlenecks in this inflation program, we are determined not to be one of them.

As we move ahead in this next year, we have some very major advantages over 1918. First of all, our price relationships all through

the economy are probably in better shape than in that period, although no doubt they are not perfect. Prices are always more or less out of joint, and there are some out of joint today. But in 1918 they were thoroughly out of joint; they were based so much on scarcity and demand. Today we have a much more sound set of price relationships to start from.

I feel the way we will be able to get out from under these controls—let me state first in the theory school and then in the practical school. Theoretically you should maintain control until supply and demand are in balance all through the economy, all of the different phases of it. If you adopt that principle literally you would have had rent control in Los Angeles for I do not know how long and also in many other big city areas. You would have it until you had housing in balance with demand throughout the country. That will take a long time. I think that is a pretty good illustration of the practical against the theoretical. That would be true probably in automobiles and building materials, that if you kept price control until you had everything exactly in balance, you would have it for a good long period, much longer than I think you could practically keep it, because it will take some time to balance out the demand for housing against available materials and also for cars against the available funds going into them. But my feeling, practically, is we will probably take all of the fields individually. We went into price control on a fundamental basis. We started in the areas where it was most necessary, steel and basic metals. We went into the areas where the pressure was greatest and we should come out the same way.

As industry after industry or product after product you get supply and demand more or less equalizing themselves, I think we should suspend ceilings for probably something like 90 days and watch to see what happens, and if the price slackens a little, you can take the ceiling away, provided it is not merely a temporary situation as far as you can see, and as soon as you have assurance it will last, you pull out of that field. That will come much quicker in some fields than in others. We are terribly short of textiles now. There is a tremendous demand for the Army and Navy, and the textile industry has had great difficulty in getting good labor. They have lost it to a large degree. They are struggling hard to get production up, but when the war demands close down, I feel you will find textile production will go up extremely rapidly and you will get supply and demand in balance quicker than some people think.

In some other fields it will not be long. In the food field, if we could get good fruit and vegetable crops in the South next winter and in the early spring, we can probably pull out of that field.

Also we can move out of our various rental areas when we can get the landlord and tenant on a bargaining basis. When Mrs. Jones will say to the landlord, "I will not pay the \$10 increase; I will go to another house," at that point you do not need control.

We have already pulled out of four or five areas. We have had to go back into two of them. There were enough vacancies to establish a bargaining situation, but we evidently were wrong on those because rents promptly shot up and the Army and Navy came piling in on us asking us to get back in there and give them some help. So those experiments were only 50 percent successful. We are pulling out of two more in June, and are studying four for July.

As Army and Navy set-ups are either disbanded or diminished, where some local camp or shipyard has caused a major distortion, we can pull out very readily.

At some point on rent control the Federal Government has to make a decision. We have got to decide if the Federal Government is going to maintain responsibility for a period of control in isolated areas, or whether at some point the Federal Government is going to say, "We will no longer take the responsibility; the general inflationary danger is past." If the local State or municipality wants to continue, all right, but it should be delegated back to them to handle; the Federal Government can tell them how to do it and will let them take it.

My own feeling is the Federal Government should do that and not maintain a long-range responsibility on it.

In England they maintain rent control, the same control which was in effect on September 1, 1939, and which was passed as a war measure in the last war. In other words, they never did take rent control out in England. On new housing, they did, but on old houses they left it in. I do not think we want to do that. We should move out when there is no further rent pressure.

One of the fields that is going to be most difficult is building materials where, as far as I can make out, every other family in the United States has its heart set of building a new home and the money saved up. There is a tremendous shortage of lumber and building materials and there is likely to be one for a long while. That will be a tough situation. Automobiles, vacuum cleaners, and washing machines will be difficult, but I believe they can be handled somewhat quicker than building materials.

In the automobile industry we have one advantage in that many of the companies have a control down through their distributorships. In other words, the automobile manufacturer has a pretty good say on what the car finally sells at by the dealer. I think those people will be intelligent and cooperative and will do a lot of self-policing. I do not think we will have to sit here until everybody in the country who is able to buy a car can get one. I think we can move out in advance of that. I think 1 year from today you will find us out of a good many fields and very close to being out of others. However, there will still be many others which will need control, but I think it is up to Congress to decide just how it wants to handle it from then on, and it will be a difficult decision. Pressure on Congress will be tremendous. People will say they have had enough red tape, regulation, and bureaucrats.

A year from today you probably will not be ready to do that, even on a practical basis, regardless of the theoretical, but that is a question Congress will have on its hands a year from today.

Now, these pressures we are under are first, technical pressures, and second, public pressures. As I say, the whole psychological pattern of the country has changed in the last 2 or 3 months. Very frankly, it has not changed as much as I feared it might. I was very much encouraged over the fact that in our volunteer organization we were able to recruit more volunteers in May 1945 after VE-day than in 1944, a year before. So evidently the public is still pretty conscious of the problem.

In my own contacts with the public, and we are probably closer than any other organization through our local-board organizations,

they seem to have a pretty keen awareness of these inflationary dangers and of what could happen if this thing blows up on us. I have been very much encouraged by that. I am encouraged with the generally enlightened public viewpoint that runs all through this period. You see it on all of these international problems that we are dealing with as well as on this problem of ours.

In the Gallup and Denver polls there are shown huge majorities saying they realize the need for price control, rent control, and rationing; they are able to ignore the irritations involved in those programs and concentrate on the main issue. That is a rambling discussion covering a lot of points, but I will be glad to expand on any part you may like.

The CHAIRMAN. I am sure the membership of the committee would like to ask some questions, Mr. Bowles. Your preliminary statement has been very enlightening.

I think there is a feeling in the Congress, and in this committee, and certainly so far as I am concerned, that we want to get out from underneath controls at the earliest possible practical moment—

Mr. BOWLES. I think everybody does.

The CHAIRMAN. I think we are all in accord on that. The question is just when.

Now, personally, the thing that worries me is if we are going to do this gradually, whether we are going to be able to do it at all. It may be it is not desirable to do it at all, but personally I think it is.

Mr. BOWLES. I think it is, too.

The CHAIRMAN. You touched on that in your statement in your illustration of England on rent control, that they still had in effect the rent control they had from the World War. Of course, if a thing is so desirable that it should be perpetuated, then I assume it will be done, but this committee is primarily concerned, it seems to me, with the question specifically of postwar employment, realizing that there will be a considerable transition from the production of war materials back to items for the civilian market. I do not know how we are going to speed up employment unless we do remove some of the shackles from business. Business is going to have to be encouraged if we are going to have private employment.

Mr. BOWLES. Could I add one more thing? First, let me say I think that is 100 percent right. We have to remember that most businessmen who come to see us say, "We do not see any reason for control on our prices." We have some, but not so many as you would think, who say, "Do not take price control off my cost; you have got to control my cost; do not drop price control on what I buy because if you do I will be in a mess."

If you set fair ceilings people can produce under, you are not putting anything in the way of getting production. At the same time, you are giving businessmen a great advantage in knowing what his cost will be. He knows what he will have to pay for all the products he puts into the item he is manufacturing; he knows they will not skyrocket; he does not have to spend half of his time guessing what his inventory is worth.

I think the way to control inventory is to give people confidence, first that the general price level is not going up—of course things will move up and down within a level and the level may shift gradually, we do not mean freezing prices, but averaging out pretty generally—

and second that his competitor across the street is not going to have an inventory advantage. That is very essential, that his competitor is not going to have the right to have any more inventory than he can get—in other words they will have plenty of inventory to operate on but they cannot scramble for it. Of course that is the WPB program. If they know those two things they will settle down. It is that psychological urge that starts them off on the inflationary cycle.

We have moved into some places in price control that normally we would not go into. When I came to Washington 2 years ago it seemed to me rather unnecessary to put price control on luxury products. I soon found, however, that without strict manpower controls and control over all material, you are forced into that position. In England, in a case of a bird cage manufacturer or someone manufacturing an unnecessary item, they will give no manpower and no material; they just cannot produce. They say that products that are not completely necessary are luxuries and no manpower and no material are allowed.

In this country we did not do that; we did not carry our control that far, and as a result we found in some areas that farmers would drop snap beans, onions, potatoes, or other things and start raising watermelons, on which there is no control; so farmers would lose their manpower to watermelon growers, and at one time they were carrying watermelons around worth about \$2 apiece so that you had a distortion in your whole agricultural situation. The OPA had to go in and put a price on watermelons, and then your manpower, fertilizer and everything else pulled back into balance.

We had a similar situation in expensive coats. If we did not put it on, all of the manpower was soon drawn away from making inexpensive coats for shop girls and other people, so that material and manpower began to go into that and you got a bad distortion.

So, in the absence of strict manpower and material control, price control was put into a whole lot of areas where it did not go in England. As soon as the manpower situation loosens up there will be no reason for price control and we can pull out of a whole lot of areas. I just wanted to add that.

The CHAIRMAN. Yes. Now finally, along the lines of the thought I was advancing there, while it might be desirable to make these relinquishments gradually in different fields at different times, would you not agree that there is going to have to be some final period beyond which none of you can go by statutory enactment?

Mr. BOWLES. I agree definitely.

The CHAIRMAN. Mr. Zimmerman, do you have some questions?

Mr. ZIMMERMAN. You said something about the cost of the war with Japan this year as compared with the whole of the last war; would you mind restating those figures?

Mr. BOWLES. The World War this year, the Jap war, the cost will be \$60,000,000,000 for this fiscal year. That is the best estimate, assuming the war goes on at its present rate, with the cut-backs they are expecting. The cost of World War I was \$32,000,000,000.

Mr. ZIMMERMAN. How will the cost of the war with Japan for the coming fiscal year compare with our war effort in the past year?

Mr. BOWLES. About \$90,000,000,000 has been the figure right through.

Mr. VOORHIS. About two-thirds?

Mr. BOWLES. Yes.

Mr. ZIMMERMAN. So the war is not over yet as far as national expenditures are concerned?

Mr. BOWLES. Definitely not. We worried about the \$32,000,000,000 war, and we are putting twice that much money into just this next year, which many of us think is near the end.

Mr. ZIMMERMAN. What effect do you think the release of a great many men in the European theater will have upon our manpower in this country?

Mr. BOWLES. I think it is going to help it. A lot of those men will be young and able skilled workers who have learned various techniques in the Army and Navy. A lot of them, however, will go into trade, some 60 percent, I understand of the boys never having had a job. Some have learned to be radio operators and technicians, but I believe a lot of them will go into sales, distribution, and retail trade. I feel a lot of them will probably end up in that area.

Mr. ZIMMERMAN. You do not think they will go into our war industries and relieve the manpower situation there?

Mr. BOWLES. Some of them will, but you will have a problem between now and fall of relative unemployment. Some of the figures are that between three and five million will be temporarily out of work while we are getting reconverted.

So you will have a loosening in that area just as you have in Detroit now. We are probably a little overemployed now. We have a lot of people who will not want to continue, older people and high school boys and others who will want to resume their education. A lot of the older men who have come forward during the war will want to quit and there will be a dropping out of people of that kind and others moving in.

Mr. ZIMMERMAN. Do you not think that is one of the big problems, the shifting of manpower from centers where there has been a cut-back or reduction in employment to places where there is a growing need for manpower?

Mr. BOWLES. Definitely.

Mr. ZIMMERMAN. That is one of the biggest problems we have to face in the immediate future.

Mr. BOWLES. Yes. So many people during the war moved into a part of the country they never dreamed of going to, such as California or Texas, and a lot of them find they like it and want to stay there. So you will have a terrific distortion.

Mr. ZIMMERMAN. I believe that is all, Mr. Chairman.

The CHAIRMAN. Mr. Gifford.

Mr. GIFFORD. I just came from a crowded committee room of Senators and Congressmen with your Mr. Madigan. I would like to know about the recent ruling of the OPA based on the shipments during January, February, and March of this year.

Mr. BOWLES. A year ago, 1944.

Mr. GIFFORD. In January, February, and March.

Mr. BOWLES. 1944; not 1945.

Mr. GIFFORD. I represent Cape Cod, Marthas Vineyard, and Nantucket. I wish to God you had to answer my mail.

Mr. BOWLES. I live in a town that has a swollen population in it, and I know what your mail is. That is not a postwar problem; it is current. You have a problem, however. Some people think that war workers in Detroit and coal miners—

Mr. GIFFORD. I do not bring it up to argue before this committee, Mr. Bowles, but to show you the heat that existed in that room against OPA. Let me say I recognize price control must continue, but about the Gallup poll, if you go into those sections, your Gallup poll would have to be a selective group in order to get a favorable poll.

Mr. BOWLES. I do not know why.

Mr. GIFFORD. You would have to go to a selective group in order to get a favorable report on price control, and I fear if it came to a demand for my vote today, it would not be very favorable.

Mr. BOWLES. Mr. Gifford, I am not asking for your vote. I am trying to lay out a problem that exists. The point you make is a key one. It is something that requires study and a conception and understanding of the ramifications of it, and they are working on it, the problem of shipments from one area to another, and all of that will undoubtedly be with us in greater or less degree. You are going to have some scarcities and war weariness and a lot of people are thoroughly tired of regulation red tape and bureaucrats, no one is more tired of it than I. If anybody thinks he is more tired of red tape and regulations and Government jobs—

Mr. GIFFORD. The psychology this morning is all against price control because our people hold us responsible for what you do.

Secondly, I think price control must exist for some time in some matters, but I ask you whether it cannot be done by statute rather than as at present. You said we legislated a good deal last Saturday; we actually put on many amendments to the price control law. I ask you whether or not those things that will be necessary to be controlled after the war could not be handled by the usual method of legislation and then by the usual enforcement officers of the courts.

Certainly there was a lot of legislation put on last Saturday.

Mr. BOWLES. Some of it may change or shift within the next 2 or 3 days.

Mr. GIFFORD. It looked pretty definite. I was particularly interested in the Patman amendment.

Mr. BOWLES. I think it is an excellent amendment.

Mr. GIFFORD. I want to say I think Mr. Bowles is wonderful. I think you handled it splendidly this morning; you put us to sleep. You are a thorough-going businessman and I pay you high compliment, but the OPA in my section at this moment is pretty bad. My fishermen say in no uncertain terms, "To hell with the OPA."

Mr. BOWLES. The fishermen have done pretty well, I think.

Mr. GIFFORD. Talk about your Gallup poll, I believe I have heard from my section. Of course you can get a favorable poll if you select from a certain group. You can get a favorable report on it if you want it.

Mr. BOWLES. I do not know Mr. Gallup, so I do not think he is trying to help.

Mr. GIFFORD. I do not like figures or statistics any more. I have been lied to so much. I think there are principles that should not be allowed to be set aside by figures.

Mr. BOWLES. I agree.

Mr. GIFFORD. Statistics are something you can talk with great accuracy about but know nothing about. I will not take the time of the committee, but I have been so worked up, Mr. Chairman, especially this morning. I do not want Mr. Bowles to take any of my venom. I pay him the highest type of compliment, but as one member of the Cosmos Club told me, "You know the OPA when set up had to take several thousand employees nobody else wanted——"

Mr. BOWLES. I would like to add that of the people in our organization earning \$3,200 or more, two-thirds of these people are getting less money than they made in 1939.

Mr. GIFFORD. They are worth less, are they not?

Mr. BOWLES. I think you will agree most people are now getting more than they got in 1939, and it may be some of these people are doing it because they think it is important war work.

Mr. GIFFORD. You will agree, Mr. Bowles, that when the OPA was set up, it was one of the later ones and they got people that the other organizations were willing to release. So, for instance, you did not have the set-up the WPB was able to get.

Mr. BOWLES. True, it is terrifically hard to get good manpower. I get two or three enforcement cases a week where someone tells me, "This looks to be wrong," and sometimes it is. However, we had 52,000 enforcement cases last year, and if only 150 come to my desk in a period of a year that look to be wrong, I do not think that is a high average.

However, I think it is true most businesses have had a terrifically hard time getting people. I was complaining about our turn-over to a group of businessmen and they pointed out that theirs was higher than that. So you do get people in OPA who are not good, but I think most of them are.

When you consider Mr. Madigan, for instance, nobody has to take the kind of beating Mr. Madigan is getting this morning. He earned substantially more before the war than he earns today. His firm has been trying to get him back all of the time. He is not there for his health, he is trying to do a job.

Mr. GIFFORD. I remember someone said a certain man with four children is no good and ought to be in the Army. That exception does not prove the rule.

I had been informed, Mr. Chairman, they had been handicapped because they did not have the best type of employees and had to pick up those whom the other departments were willing to let go.

Mr. BOWLES. I would not say that is right. I think our personnel will measure up to that of any Government agency.

Mr. GIFFORD. With the multiplicity of your jobs, I do not know how you can supervise all those things. I hope that price control will be continued by way of legislation and only where we find it is necessary, in accordance with the action last Saturday.

The CHAIRMAN. Mr. Reece.

Mr. REECE. I do not know whether I have any questions, but I might have an observation. I agree with Mr. Gifford that finding some way of relinquishing controls has a vital effect on our postwar situation. If we can find some people who will devote the same effort and in-

genuity, people within the Government, to find a way of relinquishing control that they exercise in finding a way to establish and exercise control, I think our problem will be solved.

What disturbs me is the lack of concern on the part of those in responsibility in actually evolving some way of relinquishing control, and part of that possibly arises out of personal considerations. It is true, as you say, that there are some men in the organization who have come in on a volunteer basis and who could return to their old connections with profit to themselves. On the other hand there are a great many division inspection chiefs who are not in that position and their salary schedule can be justified only by keeping their sections and divisions built up, and that, in a measure, I might say, also goes for the military.

Only yesterday an officer of considerable rank discussed with me the possibility of getting a release. He said he is performing no useful service but if too many of them leave the division to which he belongs, the rank of the chief of the division will not be justified, and that runs throughout the situation.

I am giving that as an illustration that applies to the military and likewise to the civil bureaus, and I think it has a very important bearing on this whole question.

I had a letter only a few days ago from a man who owns a little apartment building. The ceiling price on his apartments is \$15 a month. They are right good-sized apartments, four rooms and the utilities are furnished. A man who occupies one of those apartments and who occupied it during the base period, at that time was making \$15 a week. He was paying \$15 a month for the apartment. Now that same man occupying the same apartment makes \$133.60 each 2 weeks. The apartment owner is being very hard pressed. There is some question in that area as to whether rent control should be continued at all. There is no major reason evident on the surface why it should be.

Mr. BOWLES. I will be glad to have it studied. We are looking at a lot of them now to see if we can get out. There are something like 30. If you will tell me where it is—

Mr. REECE. This happens to be Johnson City, Tenn., my home town.

Mr. BOWLES. I will look it up.

Mr. REECE. I do not think I will ask any particular questions, Mr. Chairman, but this question of relinquishment of control and finding some way of doing it, I think, is important. Controls must be continued, but unless we find some way of alleviating the pent-up public feeling to which Mr. Gifford referred, the whole thing will be wiped out as soon as the war is over. I do not think we need fool ourselves on that score, because the feeling is becoming so great. In these legislative enactments we go in that direction; they all apparently have to be made against the influence of the organization that is administering it; they have to be made against the influence of propaganda that emanates from that and other agencies, and it is not creating good will.

Mr. BOWLES. I would like to make an observation on some of the things you said.

Mr. REECE. I think it would be helpful if you could get into a position where you could claim controls were voluntarily relinquished.

Mr. BOWLES. I agree.

I would like to say this on the two different points you made. First of all, the fact is there will always be some people who would like to keep control because they can get a better job that way than anywhere else. There will always be people wanting to hang on to a Government job. When you get all through with this thing there will be many people who do not want to try to find something else to do, but I believe they are in the minority. If you take all of the way through our top people, they do not make the policy decisions, I brought over 100 people from business and I think it is safe to say those people with no exceptions, practically, are making considerably less money than they can make in private business tomorrow.

Mr. REECE. If you will permit an interruption, decisions are finally made under the name of the top head, but does the man at the top become sufficiently familiar with all of the facts so that he originates the decision, or is that made by a subordinate way down the line who has assembled the facts?

Mr. BOWLES. He only provides the facts; he does not make the decision.

Mr. REECE. Take the broadcast last night which put you in the position of having issued an order with reference to this restaurant situation on the west coast. The order was issued under your name, but for all practical purposes you are not the one who issues the order.

Mr. BOWLES. May I comment off the record on the broadcast, which I am familiar with but did not hear?

(Discussion off the record.)

Mr. REECE. There are a great many people throughout the country who are coming to the conclusion that there is a group in these agencies who are wanting to create a situation which is going to make it necessary for the Government to continue to exercise control, or even create a situation where it will be necessary for the Government to come in and function in the first instance in order to continue the service for the people. When that is engendered throughout the country it is very dangerous, Mr. Bowles. Your agency is in as good a position as any to help alleviate that situation and that impression, and I hope you and the men at the top will assume the responsibility for doing so.

Mr. BOWLES. Well, I can assure you I know exactly how we all feel. We want to get out as quickly as we can and I think we can get out of many areas quicker than people think we can. I have great faith in what we can produce in this country. In this war we have proved it. The production we are capable of is going to be a factor that will wipe out the need for control.

Mr. REECE. Let us not create the impression or get ourselves in the position that when someone criticises or someone differs, that he is not as sincere and patriotic in what he is doing as we are ourselves.

Mr. BOWLES. I agree heartily with that.

Mr. REECE. As it applies to the case to which we referred awhile ago, I am sure in that instance the man is just as patriotic and anxious to see price controls with reference to inflation made effective and succeed as you are, because he has got just as much at stake as you have. We all have everything involved in this situation, and the man who criticises and appears to have a basis for his criticism, even though we may not be able to see it, I think those in responsibility

ought to explore it. It might be he is right and the other man is wrong.

Mr. BOWLES. That was explored by pretty able people.

I think criticisms coming from businessmen divide into three groups. There is first of all the situation where obvious errors have been made in the administration of a very huge program. We all have our off-days and some prices might be out of adjustment where there has been delay due to lack of personnel. We are understaffed in many sections. One of the things I worry about is getting enough people to give the individual adjustments I believe that we will have to give in the reconversion period. Delaying will delay reconversion. We need people to do that and we will have to have enough to do that and lick the black market.

First of all, we have an area where we have been wrong. Eight million prices cannot all be right; there are some that need adjustments, and in some cases we are slow. Perfectly honest, conscientious people point them out and we try to fix them.

No. 2, people are fearful of something that may occur. Again there are perfectly sincere, conscientious, earnest people—for instance, I have been told over and over again that certain things were about to happen by people I know in business, good friends of mine—off the record.

(Discussion off the record.)

Mr. REECE. I want to say if you can demonstrate to the country that the OPA is anxious to relinquish control as soon as possible, I think your problems will be very greatly narrowed.

Mr. BOWLES. I have said that many times, and I think you will see the proof of it.

The CHAIRMAN. What I think Mr. Reece is driving at, Mr. Bowles, is a thing that concerns all of us who observe Government departments generally. Yours may be an exception, and we hope it will be. That is, that once a bureau or agency is set up, there seems to be a tendency on the part of that agency to perpetuate itself in existence, and that is just human nature, and I think that was what Mr. Reece was emphasizing.

Incidentally, I do not want you to feel I ask this in any critical sense, but I would like to know what is the personnel of your agency.

Mr. BOWLES. We have 225,000 volunteers. It is much the biggest volunteer organization that has ever been put together. In addition to that we have 60,000 people, and of that 60,000, 38,000 are in local boards responsible to volunteers. The volunteers are their bosses; they pick them and choose them.

The CHAIRMAN. There are 60,000 on the pay roll?

Mr. BOWLES. When I came here we had 42,000 in Washington. I reduced it so that we have 37,000. While the organization has increased in size with responsibilities, the Washington staff has been brought down, because when you get outside of Washington you get close to the people.

The CHAIRMAN. I am sure Mr. Voorhis has some questions he wanted to ask.

Mr. VOORHIS. You are correct, Mr. Chairman.

The CHAIRMAN. He has been very patiently waiting.

Mr. VOORHIS. I have two questions, Mr. Chairman.

In the first place, Mr. Bowles, as we face this problem of reconversion, the OPA may be in an extremely critical position for the following reasons:

Small companies and in some instances companies entering new into a certain field of production, are going to have to come in with requests for ceiling prices. Some will be companies which have come into existence during the war and produce only war goods and their contracts are cut back. Others may be companies which produced a somewhat different commodity from what they want to produce for postwar. In any event you have a pattern of small industries, and a good many of them are maybe wasting goods. If you pursue a price policy which simply attempts to average prices throughout the country and base the price on what a big producer can get by on, you are actually closing the door so this little company cannot reconvert.

What are you going to do about things like that?

Mr. BOWLES. You have a peculiar situation in a case we are working on now. Some of these people are coming in with products that have never been produced, and we are working on ways by which some of those could be exempted, knocked out from under price control.

Mr. VOORHIS. Could you not have an exception for companies whose volume is less than a certain amount?

Mr. BOWLES. We have an automatic pricing set-up for all firms under \$200,000, and that is three-fourths of all firms. They will not have to go to OPA. They get a formula on which to set up prices and they set them based on their own costs, their own books. They set that price and report to OPA and they can go ahead and sell without any approval on it. We will then go back and check into a certain proportion of them to correct any that are way off base, where they figured wrong. We have tried to eliminate as much of that problem as possible by that automatic pricing.

Mr. VOORHIS. You mean self-pricing subject to OPA review.

Mr. BOWLES. That is right. We are also working out an individual adjustment arrangement. We have got individual adjustment in a good many of our regulations now, and we are working toward getting into all of them, whereby any firm has a local problem that entails high cost will at least be guaranteed from going into a loss position; in other words, they will get at least their total cost.

Mr. VOORHIS. Of course, it is not going to be much of an inducement for them to be able to recover only their costs.

Mr. BOWLES. In normal times 25 percent of all sales volume in the United States was sold at a loss; that is from 1926 to 1939. Everyone now feels he should be guaranteed against loss, and that guaranty has never been given in the history of this country.

Mr. VOORHIS. I do not believe in that, Mr. Bowles, but where you have a government agency deciding that question—

Mr. BOWLES. On the coast you have this problem: Industry on the coast has to compete with the rest of the country. They have to have costs that are comparable and be able to compete with other products from other places. The point of view is while that is true over the long haul, it is not necessarily true of the next year or two when there will be a great scarcity of goods—

Mr. VOORHIS. You can understand why we are jittery. We are out farther on a limb from the point of view of overproduction than any other section.

Mr. BOWLES. By giving higher prices now than the rest of the country gets the west-coast manufactures can get those prices and will be able to finance themselves over the period when they are getting the know-how and will be able to bring their costs down to those of the rest of the country.

In other words, you give people a break to allow them to get started, knowing that sooner or later they have got to come down and compete with other prices elsewhere. We are trying to work on that and get the right answer. I have made the statement we cannot stand in the way of any firm going into business; we have got to get out of their way.

Mr. VOORHIS. You do not guarantee the firm will get the prices you allow them to charge?

Mr. BOWLES. No. Our prices should be set so we can get people employed and get production going.

Mr. VOORHIS. And that would be important in the reconversion problem.

Mr. BOWLES. Extremely so; it is the guts of the whole problem.

Mr. VOORHIS. You stated here and I have heard other people state that the basis upon which price control may be removed from certain products, is where supplies become adequate to the demand?

Mr. BOWLES. Yes.

Mr. VOORHIS. And you mentioned fruits and vegetables and other commodities.

Mr. BOWLES. Yes.

Mr. VOORHIS. And you made the sound observation you want reasonable assurance to think that situation will continue before you pull out.

Mr. BOWLES. Yes.

Mr. VOORHIS. Would it not be a good idea and helpful from a point of view of the psychology of the Nation if they had clearly before them just exactly what the formula is as to when, where, and how the relaxation of price control will take place and when it will not; do you not believe that would be helpful?

Mr. BOWLES. I think it would if you can get it. I think most industries will know pretty well by our own discussions. We have 600 advisory committees we are continually working with and they will come to us and say, "Here is a condition in our industry and here is our outlook", and we will work that out with them.

Mr. VOORHIS. I was speaking product-wise rather than individual plant-wise; you were, too?

Mr. BOWLES. Yes, product.

Mr. VOORHIS. The chairman has already alluded to the fact some people were worried lest OPA tried to perpetuate itself, and it seemed to me if we could have written some set formula—and when I put that in the bill in the house I only got four votes—

Mr. BOWLES. On fresh fruits and vegetables?

Mr. VOORHIS. No; that was only one. I said price control should be relinquished when the supply of a commodity could be reasonably expected to meet demand or be in excess of demand.

Mr. BOWLES. I agree with that.

Mr. VOORHIS. I feel if we could have written that into the law we would have given the formula.

Mr. BOWLES. We have said that many times. That is exactly it.

Mr. VOORHIS. This is a personal request, but would it be possible for your office to furnish me a little outline of what you are proposing to do about this reconversion pricing problem on small industries, with particular reference to the west coast?

Mr. BOWLES. Definitely. We do not have the west coast completely worked out. You have a different problem. More of the problem is out there than anywhere else.

Mr. VOORHIS. I think so. We have a couple of million people in California alone who came to build planes and ships.

Mr. BOWLES. And a lot of them want to stay.

Mr. VOORHIS. That is right, a lot of them want to stay, and unless we can develop some peacetime industry, we will have a bad time.

Mr. BOWLES. I think you can do it.

Mr. VOORHIS. We will need some help, I think.

Mr. BOWLES. We will get you the story on it.

The CHAIRMAN. Mr. Hope.

Mr. HOPE. Mr. Chairman, I am sorry I did not get here in time to hear most of Mr. Bowles' statement. I do not know whether this question deals so much with postwar, although it has a bearing. This problem has been brought to your attention many times and I have never heard any satisfactory explanation of it, Mr. Bowles, although you may have offered a very satisfactory explanation. It is this problem of the individual producer coming into a field and producing a commodity where they are not under a price ceiling.

Talking about the furniture business, for example, I have a letter from a furniture dealer who says his furniture suppliers cannot supply him with furniture he has been getting, but he can get a very poor quality of furniture from some upstart firm that has just come into the field during the time OPA has been in operation and which he says he will not have on his floor, and yet the price they can charge him for that very poor quality furniture is much more than the ceiling price on the good furniture of well-known established quality manufactured by a reputable firm.

The same thing, I know, is true in the cigar and other industries where new brands have come out, and apparently they are operating either without ceiling or under a ceiling which puts to a great disadvantage a man who has been in business for many years and making a reputable product. That only gets into the postwar picture in the sense some of these people are being forced out of business by new firms coming in, and I am wondering where they will be if that is allowed to continue.

Mr. BOWLES. I think that probably has happened in some cases, maybe too many, but generally speaking, a new firm coming in and starting to make furniture would get "in-line pricing", in line with other comparable furniture. They would try to find other tables and chairs and sofas that were similar and give comparable prices. That is a pretty rough kind of justice, but it is a hard problem. It is subject to administrative error and you can get many errors in it.

A new firm coming in would get that in-line pricing which always has a certain looseness to it. It is a matter of human judgment as to whether the articles are the same. We used to try to handle it here in Washington where we had an expert staff, but we had to delegate it to the field organization, and you will find in some of these places

that they do not have the personnel they might, but it is a quick way of getting those prices out.

That is true of a good many items.

Mr. HOPE. It is true of clothing?

Mr. BOWLES. Lack of quality?

Mr. HOPE. Yes.

Mr. BOWLES. That is right. I think one of the poorest jobs in the entire inflation program has been a tendency to allow shoddy merchandise, and it has not been handled as well as it should. It is a joint problem that belongs between WPB and OPA, and neither of us is proud of it. If you will give me a specific case—

Mr. HOPE. I may send you the letter to which I referred.

Mr. BOWLES. I will look into it and get a report on it.

Mr. HOPE. I hear the same complaint in other fields. I do not happen to smoke, but my friends all talk about how they have to pay two or three times as much for a poor quality cigar as they paid for an old established brand no longer manufactured.

Mr. BOWLES. Some of those brands have been given in-line prices on their cigars, and it did not work very well.

Mr. HOPE. It is a very common complaint, and I think everybody has heard of it, and I wonder if there is anything more you can do than you are doing. It is certainly an injustice to an old established manufacturer if he has to go out of business because of a selling price he cannot operate under.

In this particular case of furniture, as I understand it, you have given the manufacturer a 5 percent mark-up, and in many instances they say they cannot go ahead and operate with that mark-up, but if it was 10 percent or 15 percent they might be able to do it, and furnish the consumer a much better quality of furniture than he gets now under the way the plan is operating, where the quality has deteriorated and the price ceilings are either the same or maybe in some cases a little higher.

Mr. BOWLES. There has been an awful lot of up-grading. They have dropped off from inexpensive lines and have moved into the higher prices. The result is while we gave a 5-percent increase, the actual price the public pays is much higher because the lower priced stuff has dropped out.

Mr. HOPE. That would not be bad if they were getting quality, but they say they are not getting it.

Mr. BOWLES. I do not think we have done a good job on quality. The whole thing has been so big and so new, and that is one of the places where we have been rather sloppy.

Mr. HOPE. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Murdock.

Mr. MURDOCK. I had one or two questions to ask, but before I ask them I want to make an observation and also a statement.

My questions might lead one to infer I am not too sympathetic with OPA, but I want to say I am quite sympathetic. I think I understand the problem you have been up against in part, and I have been praying for you and betting on you at the same time.

Mr. BOWLES. Pray, but do not bet.

Mr. MURDOCK. I call you frequently on the phone and I might add to what my colleague from Kansas just said, that I too have a letter from a furniture dealer asking about the same question.

I think you have done a magnificent job. You spoke about having some men on your staff who got more pay before the war than they get now, and that is a fine spirit. I hope that they are motivated by a true spirit of patriotism. The thing that went through my mind is, there are a good many men wearing the uniforms of their country today who get less pay than they got before the war. I hope for the same reason they are not complaining about the pay. I just cite that in passing.

You indicated in the first part of your discourse that we went into this price-control business gradually and probably we should come out the same way, that is, in reverse order. I had several conversations with Leon Henderson before any law was passed creating this OPA by statute, and I know, of course, it was more or less a voluntary matter. I almost hesitate to say this on the record. I argued with Leon Henderson, saying, if he wanted to get copper, which my State produces in great quantity, but not sufficient quantity, he could bring out the production if he would let the price go up. He said, "No; we are going to peg the price at 12 cents." "Well, you will not get enough copper that way," I told him. There are only a few copper companies producing now in the State of Arizona—only one-fifth as many as were producing in the First World War. In the First World War the price went up to 37 cents. Leon Henderson then made a change and he said, "We will let the price of copper go up 1, 2, 3, 4, or 5 cents a pound, up to 17 cents, above the pegged price, and we will pay for prewar production the pegged price and we will pay the premium price over and above, for all produced over and above the prewar production."

That has been done and we are continuing that program during the war.

Now, my question is. What is going to happen after the war? With all of these metals, copper, lead, and zinc, there is a premium now being paid. How can we get out of this situation and let the law of supply and demand operate and let those copper people out there go ahead and produce copper which the country needs, and yet, when the war controls are removed—

Mr. BOWLES. I think it is a very important question. You have this whole substantive problem all of the way through the economy. We have spent less money on subsidies than have England or Canada, and they have done a good job of maintaining a stable economy. We all agree subsidies are a necessary evil, but I do not think anyone is for subsidy. It is the cheap way out of a bad situation. If we had to give up subsidies on food you would have had food moving up 7 or 8 percent at a time you were trying to maintain stable wage rates. Nobody I know likes subsidies. The trick we have to find is to get rid of them in a way they will not hurt the producer.

Mr. MURDOCK. I saw the copper camps of Arizona ghost towns in the early 1930's, and I never want to see them that way again. From their very nature, if mines close down, even though intended for a short time, it will likely be for a long time.

Mr. BOWLES. We have got to find a way to move out of there so we do not upset the stabilization program and at the same time get to a point where the producer can get into the free market and free prices. If we pull those subsidies out at some point—for instance, if milk fell below ceiling, the dairy farmer would be in a bad jam. In some

cases we will have to pull out of subsidies and allow the price to go up. The question is the timing, so you do not upset the intricate balance of prices and everything else we are trying to protect. It is all a matter of timing.

I have had talks with Ed O'Neal of the Farm Bureau, and I think we are together. I wrote him a letter saying what we are going to try to do. You have the same problem, and I think it is one of the trickiest ones in this whole situation.

Mr. MURDOCK. I do not think I have any more questions, Mr. Chairman.

The CHAIRMAN. Mr. LeFevre.

Mr. LEFEVRE. I have no questions, Mr. Chairman.

The CHAIRMAN. Mr. Bowles, I express the appreciation of the committee—

Mr. REECE. I would like to get Mr. Bowles' idea on the question of subsidies, either on metals or food.

What is the relative effect on inflation of paying the price of milk of 15 cents a quart to the farmer direct, and paying the farmer 12 cents and a subsidy of 3 or 4 cents?

Mr. BOWLES. What we had in the Stabilization Act—

Mr. REECE. If you pay the farmer the price for the milk when controls were released, then the farmer would not be confronted with that readjustment problem that he is confronted with when you withdraw the subsidy.

Mr. BOWLES. That is the thought of the subsidy.

Mr. REECE. But what is the advantage?

Mr. BOWLES. The advantage is this. The stabilization program of 1942—the act stated that wages and prices would be stabilized at that point, roughly, the point of September 15, 1942. In spite of that language, prices continued on upward in the winter of 1942 rather substantially. There was an increase of something like 6 or 7 percent in the cost of living during that winter. Labor very reasonably stated that prices and wages had not been stabilized together, that prices were moving up and that we did not have the stabilization we talked about.

You had a very ticklish situation in trying to maintain the two in balance. In Australia and Canada, they worked out a system whereby any increase in price allows an increase in wages. We have had that only by broad direction.

Mr. REECE. If you could give us the advantage of paying a subsidy to compensate for the loss in cost of production, over-paying the price which covers cost of production plus reasonable profit—

Mr. BOWLES. If we had not put subsidies into effect on milk and meat products and various other products in the fall of 1943 and the winter of 1944, what would have happened is that the cost of food in the retail stores would have risen 7 or 8 percent immediately. I do not think under those circumstances you would have had a chance of holding wages stable at that point. Wages would also have risen, and that would have put every businessman's cost up and they would have been in for further increases in price to take care of the increased costs, and your whole spiral would start to go up. You try to maintain a balance, an artificial balance, maintained only with the help of subsidy payments on certain important cost-of-living items, and if they moved up it would tend to move up the whole wage structure and everything else. Australia, New Zealand, Canada, and the United

States, democratic countries which have stabilized prices, have all had to use subsidies. In England, they purchased a lot of food right at the docks and resold at a lower price to the consumers in order to maintain a stable price level in the country.

The evil of the thing is not the money spent because our food subsidies cost only \$1,500,000,000, while the increase in price without subsidy would have been substantially more.

It is true you have difficulty in moving out of them. We certainly intend to do the least harm possible to the farm groups who have been extremely cooperative, so there will be no harm to the income of the farmer, so he can get his price in a free market and maintain a high farm income which we want to see with subsidies out of the picture.

As I say, the question is the timing, and I hope a year from today we will be well on our way toward making a good deal of adaptations and changes.

Mr. REECE. I hope we will be entirely out a year from now.

Mr. HOPE. Mr. Chairman.

The CHAIRMAN. Let me say there is no disposition on the part of the Chair to rush this thing, and I want you to ask any questions you see fit, but I hope those of us who are here will remain for a minute after we are through.

Mr. HOPE. On this question of subsidy which I think has caused the farmers a lot of concern—in the first place they do not like them and in the second place their fear has been they do not know how they will get out; they do not know how you will end it and where it will leave them. I assume you have no idea of dropping subsidy payments without at the same either increasing the ceiling up to the amount of the subsidy withdrawn or taking it off altogether.

Mr. BOWLES. That is right. We will work that out to the full satisfaction of the farmer. I think the farmer is in a ticklish position and if we do not see that the farmer gets a good income after the war—he took an awful licking in the period before the war—in 1939, 25 percent of our people were farmers and they got only 8 percent of the national income. They lived in that more or less forgotten part of our economy. If we are to get full production of all of the electrical gadgets and household equipment in the postwar period, our farmers are one of our great undeveloped markets. I have been encouraged to sit with management, labor, and farm groups and hear them express their mutual interdependency. Business says if the workers and farmers do not have incomes it will not have any customers, and the farmers are very well aware it has been the high income in the cities that has given them the market they have had for their products, and I think the workers know the farmer has to get a good income in order to make employment.

I think one of the big problems is maintaining a good farm income.

We have had very strong backing in OPA from farm groups. They may have irritations, but when you get through those people have as good an understanding or perhaps more understanding of the inflationary danger than any group I know.

Mr. HOPE. I think that is true. I think farmers are particularly conscious of that because they remember what happened after the last war.

Mr. BOWLES. They remember very vividly. They know if prices start to spiral, everything will cost them more.

May I say this off the record?

(Discussion off the record.)

Mr. HOPE. The farmers have the fear that consumers who have been getting their food at reasonable prices because of the subsidy which reduces their out-of-pocket cost for food, they fear when you take the subsidy away and take the ceiling off the consumers will say, "We should not pay more for our food than during the war," and yet our price level may be as high or higher if you take ceilings off, and that causes very great concern among farmers. They are afraid of the psychology that food prices should not be any higher than they are now.

If, of course, the general price level goes higher, food prices will have to go higher in order to maintain even the balance we have now, even if wages and costs do not go higher.

Mr. BOWLES. Is not the answer getting distribution costs down?

Mr. HOPE. I think so.

Mr. BOWLES. You now have your margins established based on a national income of from 80 to 90 billion dollars. Assuming we get up to and hold a national income of 150 billion dollars, certainly goods and services will be in great demand and the distributive trades will find themselves making far more money at smaller margins. Those margins are now set for 80 to 90 billion dollars, and when you jump up to 150 billion dollars, they would take smaller margins and make more money. That is one way some of the selling costs will come down. They come down very fast as you put the volume up.

Mr. HOPE. That will not be true of farm products. Your volume is pretty well determined now. People will not eat more after the war than they are eating now.

Mr. BOWLES. I think they will. Take meat, for instance——

Mr. HOPE. Our per capita consumption of food during the war has been greater than ever before.

Mr. BOWLES. I wish you would state it publicly right now.

Mr. HOPE. I am stating it and I know it is true.

Mr. BOWLES. But people do not realize it.

Mr. HOPE. They have eaten better and more than ever in our history, in spite of the fact we have had a few shortages. But the trouble is they have had it at a very low cost, and my fear is that people will continue to get farm products—take bread, for instance; bread is selling at the same price now that it was in 1941 and 1942. It has not gone up because you have had a subsidy on flour.

Take distribution costs, the distribution cost on bread was pretty well squeezed out because you held that price down all the time. So the thing has been pretty well squeezed down so there is no chance there for distribution cost in something like bread. But if you take the subsidy off flour, bread may go up a cent or a cent and a half a loaf.

The thing I am wondering is how the housewife who has been paying 10 cents for a loaf of bread is going to react when 11-cent bread comes in after this is over.

Mr. BOWLES. When the war is over, and your inflationary danger is out, some prices are going up and some will go down, but I think agriculture in some way will cut its costs. We are going to have some remarkable new machinery. We have two factors working to maintain farm income. Also there is no reason why the farmer should work the hours he is now working. He is working much too long now. So you have farm machinery which will lower costs and there will be some degree of lowering of distribution costs.

After the inflationary danger is over, I am not worried about seeing the price of bread go up. The level is the important thing. I think you have factors to hold that level under a free-enterprise system. We have to make sure we have the purchasing power to buy all of these things. We have to maintain heavy purchasing power. We have proved what we can manufacture, but we have to get the income into people's pockets so they can buy.

I am not a pessimist. I do not think the world is going to pieces. I think we are in for some good times under our traditional system.

I would like to make it very clear I think you will find all of the people running OPA in our regional and district offices and my staff in Washington will probably be more pleased even than Congress when the need for this is finished.

I would say if there are mistakes, they will be more in pulling out before the pressure is gone than in the opposite direction. We are all committed to that, clearly, and I would like to restate that.

These are unnatural controls put in to hold a distorted economy built up through the war. If we had not had them, I think you gentlemen know what might have happened. Steel went up 450 percent in the last war and has been held to one or two percent in this war. What would your battleships and tanks have cost if you had the crazy prices of the last war?

The cost of the war already will be \$300,000,000,000 or at least \$250,000,000,000. If you had had the prices in the other war, they would have reached such proportions we could not have carried the debt.

We have also had to hold down the cost of living and we have done a better job than many of us thought we could do. We have got to work our way out of it as quickly as we can. That is our job, and I think when Congress discusses the Price Control Act a year from today, I am extremely hopeful they will say we have lived up to our assertion and intention of moving as fast as we can.

Off the record please.

(Discussion off the record.)

The CHAIRMAN. Mr. Bowles, it is encouraging to know that at least the head of the organization feels as you do and we are very grateful for your appearance here this morning.

Mr. GIFFORD. Off the record.

(Discussion off the record.)

The CHAIRMAN. Thank you very much, Mr. Bowles.

The committee will now go into executive session for a minute.

(Whereupon, the committee retired into executive session at 12:25 o'clock p. m., the reporter being excused.)

POSTWAR ECONOMIC POLICY AND PLANNING

FRIDAY, JULY 6, 1945

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POSTWAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met, pursuant to notice, at 10:15 a. m., in room 1012, New House Office Building, Hon. William M. Colmer (chairman) presiding.

Present: Representatives Colmer (chairman), Voorhis, Murdock, Welch, Wolverton, Hope, and LeFevre.

Also present: H. B. Arthur, consultant; E. B. George, consultant, and Norman Burns, consultant.

The CHAIRMAN. The committee will come to order.

The meeting this morning is a continuance of the hearing on the subject of relinquishment of Government control, wartime control. In furtherance of that, and particularly in line with the request of Mr. Wolverton of New Jersey, a member of the committee, we are going to hear Mr. Silvey.

Mr. Silvey, I might further say that we have on several occasions invited members of your organization, as well as other labor organizations, but we seem to have a little trouble in ever getting the appointments to work out. So, we are glad to have you here this morning.

You may identify yourself and proceed as you see fit.

STATEMENT OF TED F. SILVEY, CHAIRMAN OF THE CIO RECONVERSION COMMITTEE

Mr. SILVEY. My name is Ted F. Silvey. I am chairman of the CIO Reconversion Committee. It was good of you to allow me to come.

Mr. George, when he first issued the committee's invitation, suggested July 3. I had to be down at Camp Lee that day to speak so he made arrangements for me to come over today.

We have a very definite point of view with respect to controls. With your permission, I should like to speak about our attitude toward them and the whole system of our economy.

I noticed this morning in the Washington Post that the Civil Aeronautics Board has permitted three American aviation corporations to fly the Atlantic Ocean. When I read the story I thought about what some of the businessmen of a century ago might have said about the Government butting in and telling them they could go across the Atlantic Ocean. This matter of international aviation is something someone doesn't go about as he pleases without regard of consequences

to society or different countries or people. So you have to have a control of the Government to say whether or not an aviation company can set up passenger and freight lines across the Atlantic Ocean.

This is only an extension of highway traffic control, and laws as to how you drive an automobile, whether you stop at a red light or not. These things are controls, and they are controls that have been adopted in the interest of the whole people. They are laws.

Now we think that controls in their democratic application are protection for the people who want to do right as against those who would, without controls, do things that are bad for the bulk of the people. For instance, if a man who is in business decides to be a pirate and do what he pleases and what is good for him, without regard to the consequences on his employees, consumers of his product, his competitors, or the community in which he lives, then the society steps in and says "no;" it exercises the police power, and that police power is in the interest of the people who do want to be law-abiding.

It just comes to my mind that in some sections of a residential area of a city you can't raise pigs or chickens. It is antisocial; it is bad for the population. So the Government steps in with controls.

Now our point of view is that controls invoked during war have been necessary for the security of the Nation and to get out war production. We think that there is too much loose talk about just getting rid of controls as though it is of no consequence that we had those controls in the first place, and that therefore when the war production program was over, pay no attention to what impact war production and the war has had upon the economy, but just letting everything go.

We say sometimes that the economy during the war is like a tightly wound spring. If you just release it all at once, somebody is going to get hit in the eye and get hurt. If you gradually unwind it and do it by the use of controls invoked in the first place for the successful function of the economy, for the security of the Nation in the war period, people will not be hurt and we will have a smooth transition in the postwar period. Then we can determine, out of our experience, what additional controls we need.

One of the commonest characteristics of our society is cultural lag, the unwillingness or inability of enough people to bring their thinking and attitudes about social, political, and economic relationships into line with the facts of a high-power technology.

I remember reading when Robert Fulton had his steamboat on the Hudson River, the people lined up on the banks to jeer at him. Everybody knew, of course, that a boat could not run without a sail. It was impossible. One of the stories that I think will illustrate this question of cultural lag is the story of the B. & O. Railroad when they tried to put their line across the Ohio River. They went to the county commissioners of Fairfield County, Ohio, asked for permission, and the county commissioners met and considered their request and replied in due course no, saying, "If God had wanted a man to go as fast as 15 miles an hour, he would have made him that way." We look back and laugh at that.

I well remember that during the depression serious people said, "If a man is unemployed it must be his own fault."

This cultural lag is one of the greatest handicaps in looking at this business of controls. The surest thing in human affairs is change. The challenge we face is to meet the change and adapt ourselves to it so as to make real progress instead of just having change for its own sake.

You may be interested in a paragraph from Judge Vinson's report, *The Road to Tokyo and Beyond*, which I would like to read:

The word "reconversion" carries with it absence of going back to what existed before. In many ways, we do want to go back to the comforts and pleasures of peacetime America, but as far as our national economy is concerned it would be disastrous to go back, for we would be going back to the misery of mass unemployment.

After the war, the American economy must be dynamic, with expanding business, expanding markets, expanding employment, and opportunity. The American people are in the pleasant predicament of having to learn to live 50 percent better than they ever lived before. Only the defeatist can scoff at this inescapable fact that we must build our economy on that basis.

This expansion must be brought about by positive policies on the part of business, agriculture, labor, and local, State, and Federal governments.

The time to start hammering out these policies is now, while the transition is still young.

We had nothing to do with the preparation of that text, but we think Judge Vinson has expressed a great wisdom in connection with what he has said here.

Now there is going to be control in the economy. We ought to face up to that fact first, we think. Is the control going to be exercised by those people who, in the development of commercial empires and economic empires, set back and made decisions that affected the whole people when those who make those decisions are not responsible to the electorate? The American Telephone & Telegraph Co.'s board can sit down at an annual business meeting and they can decide certain things and they never have to think when they make those decisions: How will this affect my chance of being reelected at the polls next November? They only think how this will affect their profit position and what it will do for them. The American Telephone & Telegraph Co. makes decisions about rates, about installations, many economic matters, as well as engineering matters. Certainly, it is a marvelous institution, but it is not an institution which is subject in any way to the will of the people. There is no democracy in it. Whereas, in the Congress of the United States and in the legislative bodies and executive departments, we have an attitude, that when the decision is made there will be a reaction about that decision in the minds of the people throughout the country. And the decision, therefore, is made in terms of what the people will think about it and how they will act at the polls. This is democracy, and it is all to the good.

Government controls are Government laws. During the war some of these laws have been applied under emergency conditions and are necessarily of temporary duration. All laws, permanent and temporary, arise out of need for them.

It was early in this century that the novelist Upton Sinclair wrote a book called *The Jungle* about the meat-packing industry. He was interested in exposing the terrible working conditions of the employees in the Chicago meat-packing plants. In telling the story, it was necessary for him to describe the conditions under which people had their meat processed. As a result of this book, President

Theodore Roosevelt appointed a commission to investigate the meat-packing industry, out of which commission's report came our meat-inspection laws.

Upton Sinclair said later that he was aiming at the public's heart, but that he hit them in the stomach. The law which followed arose out of the need which was present for it.

Similarly, the National Labor Relations Act came into existence, in more recent times, from the abuses of civil liberties that were revealed from the investigations and hearings of the La Follette Senate committee.

Out of wartime Government controls or laws, there must continue a certain policing of the economy. These are controls or laws which came only partly because of war. They came sooner and were accepted more readily, but they would have had to come, even without war, if our economy was to prosper.

There are two kinds of wartime controls. Those which limit and restrict—a manufacturer cannot make a vacuum cleaner, and you and I cannot buy a pair of shoes without a ration coupon—and those which are designed for expansion and the accomplishment of designated desirable objectives, such as the President's wartime powers allocated to the War Production Board.

Perhaps the greatest control which the Government exercises at the present time over the economy is the fact that it is the great customer of all business, and that practically everything which can be made is bought by the Government. In the future absence of Government on the market, we shall have to organize to assure purchasing power to maintain this guaranteed market, which means our economic controls.

Economic controls are not new. Controls have been exercised by private groups—by the railroads, the electric power and telephone utilities, financial institutions, oil and steel and coal corporations. Many of these economic empires have been more powerful than the United States Government itself.

What we are currently experiencing and will see, I think, during ensuing years is a democratization of the privately decided controls or laws, and the necessary changes of those private controls for the public welfare. This is all to the good and is part of the progress of the American people.

Now, one of the most important controls is that which is exercised over a man's life by deciding whether he shall be permitted to work and earn a living. Samuel Insull's statement that the surest guarantee of a contented working force is a long line at the employment window is completely out of date. That was a control. It was exercised by the employer. The idea was that he had two or three hundred people showing up at the gates every morning wanting jobs. The people on the inside would look out and they would be very quiet about asking the boss for any raise or object to any policy or make mention of any grievance, because the boss could always point to those people outside and say, "You had better keep your mouth shut or you will get fired out of here." Such a working force was really never contented nor fully productive. Workmen are not only producers, they are more important in this time of technology as consumers. What we need, then, is a long line at the cash register.

You can't have a long line at the cash register unless you have people with money in their pockets.

Now business will learn, we think, that this long line at the cash register is more profitable than a long line at the employment window, and come to accept it. Society is learning it, because society is interested first in surviving. There is no longer a moral question of whether a man shall have high wages. High wages and constant earning power is absolutely essential to keeping the economy going, because we can't afford to have people without purchasing power.

Well, then, there is a new concept, not the old idea of exploiting those who are less powerful or less fortunately situated, but of all groups combining to harness the riches of nature for the betterment of all of us. It is at that point that I want to come in with our discussion of controls, because in the transition of the present controls to the postwar economy we want participation by all the groups instead of one group of powerful financial people sitting back making decisions without us having any say in the matter.

Business has done terrific things in America in increasing production, and making new scientific and technological methods available. The whole business of making more worth less effort is the great thing about American enterprise. This isn't going to stop. It is going on, and it should go on, and we want it to go on.

Mr. Evans over at the Bureau of Labor Statistics has made some analyses with respect to postwar productivity. He thinks there will be a plateau for 1 year, then rapidly accelerating in 3 years at about 10 percent a year, so at the end of 3 years there will be one-third more production with the same working force there was before. The impact of this on the economy will be terrific.

Then there is this talk about automatic control mechanisms that are coming—the fact that machines through the vacuum tube, the electronics and television, can be made to think, not think originally, but think according to human patterns that are set up in advance and that are fed into the machine on tapes or wires or ribbons, or anything like this system of player-piano roll that makes a machine play.

Because this might be true, and we look for it, economy will become so fruitful, machines will become so productive that they will be able to do most anything except buy what they can make, and it takes money in people's pockets to do that.

We are looking, therefore, with eagerness to a time of even greater productivity than we have got during the war. We want to participate in it and we want to help it come in the labor movement. We want an ever larger number of people to have the higher standard of living that Mr. Vinson talks about in his report, and not have a continuously smaller island of wealth in a sea of mass unemployment, because the nature of society that business has made with the development of technology means that everybody has got to participate in it or nobody is secure.

The International Labor Office meeting at Philadelphia last year came out with the Philadelphia charter and emphasized that lead line: "Poverty anywhere is a threat to prosperity everywhere."

The extension of steam and electric power in our day has reached so far that wages and consumption become the keystone of continued

operation. Now the war has been successful in production because we have had a national oneness of purpose, which has made victory possible. We still have the Japanese war to win, and we still have a national oneness of purpose to accomplish that objective. The problem is can we merge this oneness of purpose for victory into a oneness of purpose for full employment and full production; in other words, accomplish Judge Vinson's statement which I read.

Controls are in the picture. We want them to be democratic controls. We want them to be controls adapted to every group and by Government participating instead of being decisions that are made in isolated areas by powerful interests.

The organized labor movement, the CIO, is concerned with fiscal policies, and we are concerned with management of the national budget, but we think more is necessary than just arranging bookkeeping transactions in the Treasury Department or in the Appropriations Committee or similar committees of the Congress.

We have a feeling that wealth comes from production and not from reordering and rearranging the things we already have. Production comes from the application of human energy, human intelligence, and human skill to the forces of nature and raw material. How to get these human qualities applied to the forces of nature to create constantly new wealth is the thing we speak about and is the point about which we emphasized the need for democratic controls.

Manufacturers are currently saying they cannot produce all the jobs necessary in the postwar period. They declare they must not be expected to come through with as many manufacturing jobs as they now have. They say it will be necessary to have more of these jobs in the professions, in the services, and in the distributive trades. Well that may, in part, be true, although we think there can be more jobs in production, and in manufacturing.

Suppose manufacturing does not provide for jobs. Where are these jobs to be found that have to come? Well, they come in the field of health, more doctors, more nurses, more laboratory technicians, more dentists, more hospitals, and hospital staffs, and so forth.

They would come in the field of education, more schools, more subjects taught, more adult education, longer period of training for some people; all of the business related to the educational system would have to increase.

Maybe people will be interested in astronomy as a hobby. Maybe there will have to be more swimming pools, more playgrounds, more parks and so forth. All of these things will provide jobs, it is true, but where does the payment for these things come from? Well, they come from taxes almost exclusively. At the same time, the manufacturer says, "Don't ask us to give you the jobs. Look for them in the service and professional fields."

Then we look for them there and we see that payment for them has to come out of taxes. Then we find those same manufacturers saying, "Reduce our taxes." That isn't quite consistent and therefore becomes a subject of control, and tax policy.

So, it is in the field of mining, manufacturing, transportation, and agriculture where wealth is produced. The wealth thus created must provide dividends, wages, and taxes in proper proportion to keep the economy going.

None of the things we do are in isolated boxes. All of them have an effect on each other.

Now I should like to speak for a few minutes about a concept we have in respect to postwar controls. I use the word "control," of course, in the sense I explained that it is a law.

The CIO for a number of years have spoken of what we call our industry council plan. We ask for a democratic teamwork for full production and employment. With your permission, I will read part of our convention statement on that:

The CIO made the first proposals for the conversion of America's vast industrial facilities to war production. Among these proposals were the industry council plan and the programs of several CIO unions for converting the steel, automobile, aluminum and other industries.

These programs were based on one fundamental proposition:

There must be teamwork on the part of labor, industry, and Government in organizing production around an over-all national plan and component industry plans.

This principle was to be applied by establishing a national production board and industry councils, composed of representatives of management and labor with Government chairmen.

As the war went on, the importance of planning and labor participation was more and more fully recognized and the results became manifest in amazing production records.

The same fundamental proposition must be applied in the transition to peacetime production and the maintenance of capacity output and employment thereafter.

Labor, management, and Government got together successfully to produce the weapons of victory. They should stick together to build an enduring prosperity.

These steps should be taken:

a. A national production council should be set up, properly linked with the War Production Board and other agencies, which will be responsible for taking the country through reconversion and keeping it prosperous. It should be composed of representatives of labor, industry, agriculture, and Government.

b. Industry councils should be established in the great basic and mass-production industries, composed of representatives of labor, management, and Government.

c. The national council and the industry councils should work out an over-all national program and component industry programs for changing over to peacetime production and operating at capacity thereafter.

Many of our great corporations are preparing plans now for their operations after the war. They are planning their investments in new equipment and machinery. They are counting on running certain plants and shutting down others. They are estimating their expected sales and fixing their sights for production and employment accordingly.

Now, the labor movement for years had as its No. 1 enemy this Frenchman by the name of Bedaux, selling speed-up systems. There were many others. When the war came, and when the national oneness of purpose, of which I speak, began to solidify, then the labor movement came to Government and offered to throw its resources, its intelligence into the fullest possible production. Although we fought the Bedaux speed-up systems for years, we turned right around and created our own speed-up system. What was the reason for that?

Well, it was more than a patriotic concept of labor. It was a realization that with a great avalanche of production, there would be a greater security of jobs.

We don't want to stop at the end of the war and go back to fighting speed-up systems again. That is "no soap." There is no progress there. We want to continue to accelerate production, because it means the creation of new wealth. But we say it must be done democrat-

ically, and that we shall have our reasonable share of that acceleration of wealth.

The people of this country have a vital interest in these activities.

The plans which management is making for capital investment in new plants, machinery and equipment must be big enough to add up, along with public investment and foreign investment, to whatever is necessary to keep our capital goods industries going.

The levels of production and employment which our big corporations are scheduling must be high enough, together with the employment provided by small business and government, to provide a job for every person in the country who wishes to work.

The people in every community in the land have a right to know whether the companies intend to operate the plants in that community and what they intend to produce.

High wage rates are an imperative of the transition and the peace. It is likewise an imperative that our plants and factories be kept open and operating. The jobs must be there before men can earn money. A 25 percent cut in employment can be just as disastrous as a 25 percent cut in wages, and can be imposed overnight. We want none of that in the postwar years.

All these matters are proper and necessary subjects for consultation and cooperation.

These problems should be dealt with by the national production council and the industry councils.

If the corporations continue to do the planning job alone without relation to programs of other companies, and of the national, State, and local governments, they will inevitably shoot too low.

We must get all our programs out on the table where we can look them over and see whether they measure up to the total national production, employment, and investment levels which are possible and necessary if the deflationary gap is to be closed.

What we say here is that through this arrangement, when these decisions are made, all the people who are interested in them, shall have some voice. That doesn't mean that labor is interested in taking management's decision away from it at all: nothing of the sort. We know that no enterprise can function unless you have a responsible executive at the top of it. We have responsible executives in our organizations, and in a sense we have management problems, and so forth.

We are not interested in cutting in or taking away any of those management prerogatives in respect to their operation of their business. But we do not believe that these decisions should be made in secluded boardrooms of New York financial houses or elsewhere, but they must be made in the light of the country's interests and the people's examination of their decisions.

For example, if we had an industry council in the shoe industry, there would be in this industry council representatives, of course, of the leather industry, fabric industry, shoe industry, machinery industry, and representatives of management and labor, together with agricultural people who are interested in the hide production, and the Government.

I mentioned the shoe industry because the shoe industry is an industry which produces three or four times as much in a year as the people have ever been able to buy of its products. Anybody can go into the shoe industry who has enough money to rent a machine, without regard to the market or anything about it.

Now it is going to be necessary through an industry council plan, as we visualize it, to think about the market and to see if we can get production of shoes up to the point where all the shoe factories will work enough so that there will be full employment.

This has its ramifications not only in wages and dividends, but also on the farm communities in the production of hides.

And then if this went on with respect to all other industry groups, with everyone setting up their programs, instead of setting their programs just short of what they think the market will be, there would be the tendency to increase the market because of the increased wages and production that would follow.

It would be possible for everybody to aim just a little bit higher and the expanded programs in the shoe industry would make better employment in the steel industry, in the automobile industry, and other industries.

Now we do not feel that controls as they have been put on in wartime are desirable to continue for the indefinite future. They are made for the purpose, just like an Army truck is made for the purpose. An Army truck isn't going to be any good for laundry delivery after the war or hauling coal. So these war controls have been fabricated to meet the problems.

Now, we can complain about the controls, but we don't need to complain about the theory of the controls, and what was accomplished by the use of them.

So, we will get rid of these controls. We too want to get rid of them. But we don't want to say everything is wide open and let the strong gobble up the weak regardless of the consequences on the economy.

We make a considerable emphasis on the time of the elimination of the wartime controls. We think it is not wise now even to open steel because there is a terrific shortage of certain kinds of steel. We have, in our discussions with the War Production Board and the Office of Economic Stabilization, been concerned about this matter of opening steel. There are three-quarters of a million tons of sheet steel short for the third quarter of this year with respect to the programed items.

When steel is laid out in the free market with that kind of shortage, then, of course, the wild scramble that will follow will not only be inflationary and create a black market, but it will tend to put the use of steel in the production of luxury, high-priced items instead of the things that the citizens of the country most need.

Luxury items may take precedence over cooking vessels, or juke boxes over washing machines, just because it is natural for a few to do the things that will be the most profitable for them, regardless of the effect on the rest of the economy.

Now the illustration I gave you somewhat gives our point of view with respect to most of the controls. We do understand they are tailor-made for the purpose. Too, we do understand they won't be useful in the postwar period. We do, however, say that economic controls, democratically arrived at are part of the essentials that have come because of the technological nature of our society. We want to see the transition operated in such a manner that we won't get in the old scramble of everybody getting for himself while the getting is good, and the devil take the hindmost.

At that point, I will be satisfied to stop and say I have had a good hearing and I appreciate the time you have allotted me, and the good attention you have given me. I will be subject to any questions.

The CHAIRMAN. Thank you.

I am sure that some of the members of the committee desire to ask some questions. However, we will have to all bear in mind that the House is meeting this morning at 11:00 o'clock and we may possibly be called to the House fairly shortly. So, the membership will bear that in mind in asking their questions, and also bear in mind that we have Mr. John Green this morning, of the Marine and Shipbuilding Union.

Mr. VOORHIS. Mr. Chairman, it can't be done.

The CHAIRMAN. Mr. Voorhis, I will be glad to let somebody else manipulate it. I am just facing a realistic situation.

Mr. VOORHIS. We can't do all those things.

The CHAIRMAN. That is our trouble always, Mr. Voorhis. I thought I would call the committee's attention to that.

Mr. Voorhis, we will start with you and give you the first honor.

Mr. VOORHIS. What I said didn't have that in mind.

Mr. MURDOCK. May I ask a question?

The CHAIRMAN. Yes.

Mr. MURDOCK. Do we have general debate on the tax bill today? If so, the committee might sit during general debate.

The CHAIRMAN. I am not advised just what the program is going to be. Off the record.

(Discussion off the record.)

The CHAIRMAN. Mr. Voorhis.

Mr. VOORHIS. I am just going to ask one question.

Do I understand your principal point to be that you believe that the kind of so-called controls that should be exercised, are those that will lead to increased production and expanding economy, that will prevent bottlenecks from developing, rather than the sort of restrictive controls that have been in effect during the war?

Mr. SILVEY. Yes, sir.

Let me repeat that part of my testimony where I said there are two kinds of controls. There is the restrictive control, the kind that says you can't buy a vacuum cleaner; and then the kind of control in the War Production Board that hasn't been restrictive but has been expansive.

For example, the question of subsidies are controls. The subsidies that produced copper out of North Michigan where it couldn't be mined at ceiling price was an expansionist control.

Mr. VOORHIS. When most people talk about controls, they mean restrictive controls.

Mr. SILVEY. We don't look at it in that sense.

Mr. MURDOCK. Premium payments to encourage copper output were made not only in north Michigan, but in several other parts of the country.

Mr. VOORHIS. For example, Arizona.

Mr. SILVEY. I mentioned that because it was the first one that came to my mind.

The CHAIRMAN. Is that all, Mr. Voorhis?

Mr. VOORHIS. That is all.

The CHAIRMAN. Mr. Welch?

Mr. WELCH. No questions.

The CHAIRMAN. Mr. Wolverton?

Mr. WOLVERTON. I have no question except to make the observation that I think the committee has been greatly benefited by the testimony

that Mr. Silvey has given to us, and I am very glad that we have had that privilege, Mr. Silvey. It is a statement that can be re-read and can be studied with a great deal of benefit in formulating policies with reference to the postwar period.

Mr. SILVEY. Thank you, sir.

The CHAIRMAN. Mr. Hope?

Mr. HOPE. I had one question I would like to ask. I was interested in what Mr. Silvey said about these industrial committees.

Mr. SILVEY. Industry councils.

Mr. HOPE. What bothers me about that is I am wondering if an industry council, even though it represents management and labor and all the factors in the industry, if it would be any different when it came to a show-down than a sort of a cartel set-up. Do you understand what I mean?

Mr. SILVEY. I do.

Mr. HOPE. I would like to have you go into that a little bit. You mentioned the A. T. & T. just meeting and considering what would be to the financial interest of the A. T. & T. Unless we think and believe that whole industry itself takes a broader view of that industry in its relationship with the rest of the economy than capital or management would take, then, it seems to me you are likely to run into exactly the same situation that you have been complaining about. I would like to have you go into that.

Mr. SILVEY. The question is often asked: "Does this mean cartelization? Does this mean a corporate state?"

Most emphatically, it does not, because we are opposed to all of those things.

Mr. HOPE. I know you are. I am wondering how——

Mr. SILVEY (interposing). We feel that the industry council plan for each industry, being tied together with the National Production Council, or the National Production Board, will have due weight given to the various elements in the economy that need consideration, and when each industry council meets it is not, for example, the Sheffield Farms Corporation sitting down with the union of the milk wagon drivers and saying, "Look, if you go along with raising the price of milk 3 cents a quart, we will give you \$6 a week increase in wages."

That is the bad effect of two economic groups getting together and conspiring against another economic group. We feel that by enlarging the industry council plan so that it doesn't include just one set of employers and one set of workmen, but every element that there is no danger of what you speak of. It will be tied in with the National Production Council and through that tie-in, will have research people to go into all the problems so that when the industry councils make their decisions they will know the effect of their decisions on the whole economy.

Now, the consumers, of course, are the biggest unit to be considered. If, for example, in the farm machinery industry, the manufacturers and the unions would do something to set a cartelized arrangement similar to what they already had, or even more intensification of what they already had, then right away the people who represent agriculture, who are from the farms, and who buy that agricultural machinery, have an interest in it. They say, "Now look, you can't do that and expect us to pay this inflated price, or you can't cheapen the quality of this thing and expect us to pay the same price."

It is the same with the Government.

I can see that the Antitrust Division would be very properly interested in this industry council arrangement. I didn't read you further in our statement, but we very definitely ask that the Antitrust Division shall see that none of the monopolistic practices are permitted. We think it will not be necessary, because it is hardly likely that all four groups who represent everybody would go along on a cartel. Therefore, the thing seems to us to be self-policing.

Mr. HOPE. From what you have said, it indicates, of course, that you are fearful of that thing.

Mr. SILVEY. Conscious of it.

Mr. HOPE. And realize it is a very important factor that has to be conscientiously overcome. That is, you have got to prevent it if the thing is going to work at all.

Even in the shoe industry, don't you think there would be a tendency on the part of all those various groups to regard themselves not as consumers, but as producers, to get the largest income for the shoe industry? I am just wondering how you are going to overcome that viewpoint. It seems to me it is going to take a long process of education to overcome that tendency that all of us have, to forget that we are consumers and consider ourselves only as producers with a desire to get as large a part of the national income for that particular productive group.

Mr. SILVEY. Shall I speak again, or are you pressed for time?

Mr. HOPE. I don't want to take up too much time, but I would like to have a little elaboration.

Mr. SILVEY. I emphasized the point of view we hold, which I read also out of Judge Vinson's report. There is a break-even point in industry where at even as low as 25 percent of operation, they can make the biggest profit for themselves. With one group making the decision, it is constantly to do less. When they set their sights for production to meet just short of what the market will absorb, which is the normal business way of doing it, and everybody else doing the same thing, you have a constantly retracting or drawback so as to restrict. Now, this concept of the greatest good of each group being found in the greatest good of a whole country, is a complete reversal of this thing and has come to pass, in our point of view, because of the scientific and technological developments, which will not allow the country to exist profitably and prosperously by constantly drawing back and restricting. Our new prosperity and new welfare is found in increasing, expanding and making more. We are not going to get rid of human selfishness, but we can turn human selfishness toward the common good.

Mr. HOPE. Let me ask you another question. Wouldn't you get the same results, and perhaps get it more effectively, if we got back to a system of free and open competition in every line?

Mr. SILVEY. I think not, sir.

Mr. HOPE. Tell me why.

Mr. SILVEY. Why do I have to pay \$12 for a pair of shoes? I will ask the clerk that. He doesn't know. I have to study economics to find out why they cost me that much. It takes me way back through a long channel of activity.

Finally, I find down in South America there is a tree, the bark of which is called quebracho, and it has a peculiar chemical quality for

tanning leather. And this thing away down there under the world is controlled by British and American cartel systems which keeps the price at astronomical figures. They even cut down the trees and burn them so as not to let enough quebracho come on the market to reduce the price. So I find out the biggest cost is right there in that cartel. If that thing were broadcast all over the world, and gets eventually, I hope, to the social and economic council of the new world organization, something will be done about quebracho which will affect the price of shoes to you and me. A free competitive economy, absolutely free, will produce more and more quebracho situations so that society has got to police cartels.

Mr. VOORHIS. But if government actually prevented those cartel controls, and monopolistic controls, you would have a different situation, and unless government did that, you couldn't be said to have a free competitive system.

Mr. HOPE. I appreciate your bringing that point out. What I am trying to get at—and I don't want to take up any more time—is whether it might not be better, as far as the function is concerned, to exercise governmental powers in preventing these things which do prevent free and open competition. In other words, isn't there a better opportunity for the Government to accomplish its part in this thing by doing away with these practices, prohibiting these practices, which have brought about the cartel system?

Mr. SILVEY. In a quarter of a century it has not succeeded. If the Civil Aeronautics Board hadn't stepped in, there might be 42 corporations trying to fly the Atlantic Ocean. Three are permitted. That is control. That is law. The same thing will have to apply with respect to some of these other things, because of technology.

Mr. MURDOCK. I think there should be some set-up in this Government by which businessmen or industrial councils, of the type Mr. Silvey mentioned, could have an opportunity when they have reached agreement, to present to the antitrust division of the Department of Justice to ascertain whether that would be a violation, in their opinion, subject to prosecution of the antitrust laws. Frequently businessmen do the thing they think is right, and then afterwards they find they have violated the law. So I think that is part of what would have to be considered in setting up industrial councils.

Mr. SILVEY. I have something further that I feel constrained now to read into the record. This, again, is from the official CIO convention statement last year.

This says:

Labor is ready and willing to cooperate and to contribute its own working knowledge of production and its familiarity with the needs of the people.

There must be no conspiracies in restraint of trade in the operation of the industry council plan. The antitrust laws must be enforced, not relaxed. Restricted production and monopoly prices cannot be countenanced.

Purchasing power of people is as much a result of low prices as high wages. High production schedules mean low unit costs so that fair prices will be possible.

Small business must be helped and protected. Planned cooperation must be based on industrial expansion, not contraction.

The most pressing need of the peace, after a sound wage and labor policy, is for this working partnership of labor, management, agriculture, and government in the preparation and execution of programs of full production, full employment, and a high rate of capital investment, fitted into a total national peacetime production plan.

The CHAIRMAN. Mr. Murdock, would you permit me to ask one question?

Mr. MURDOCK. Surely.

The CHAIRMAN. I was interested in the witness's statement about the cost of this tanning extract that comes from one of the South American countries. I think you called it quebracho. You said that was an enormous proportion of the cost of a pair of shoes. Do you know just what part it is?

Mr. SILVEY. That I can't tell you. One of Mr. Berge's documents has the whole story of this.

The CHAIRMAN. Very well.

Mr. MURDOCK. I wanted to reenforce what my friend over here said about that statement. It is a good statement, and one which will bear rereading. I am going to give it close study.

Mr. HOPE. Would you yield for interruption?

Mr. MURDOCK. Yes.

Mr. HOPE. I want to say that I think it is a fine statement and very interesting. My questions about it, of course, were only for the purpose of bringing out some points that arose in my mind. It was a very stimulating statement.

Mr. MURDOCK. There are several questions in my mind. As I have viewed our economic society in the past, it seems to me we are dependent upon it being automatic, but sometimes it isn't automatic. Now, the question is how far will public officials, representing the public generally, have to enter into all this management that you speak of? How far should government enter into that?

Mr. SILVEY. I think it is going to be necessary to enter into it to a considerable extent. When you talk about the economy being automatic, I am reminded of a remark we picked out of Mr. Krug's press release. He talked about the resiliency of the economy. We feel that the resiliency of the economy is like the resiliency of a rubber ball. You hit the floor hard and the ball bounces high. Our economy needs something to give it the bounce each time. Our theory is economic salvation for everybody and not just for a few. It has got to be organized. It has got to be planned. Government will have to be in it. The only point is how government will be in it so it will be democratic.

Mr. MURDOCK. You have stated you are not in favor of repeal of the antitrust measures, but rather of enforcement. I take it there must be revision, however, of the interpretation if not the law. Perhaps we ought to have a new concept written into the statute.

Mr. SILVEY. Philosophically, I would agree with you; but not being a lawyer, or expert in that subject, I can't say.

Mr. MURDOCK. I am not a lawyer either. I do think, Mr. Chairman, that the great task that lies ahead is not going to depend on the official statesmen, "unofficial statesmen," enrolled in the legislative halls alone, but other statesmen who represent great groups of our economic society in management and labor throughout.

Mr. SILVEY. If I may interpose—you have such an example here. I have had great pleasure working with Mr. George. Mr. George is a statesman. You depend on him because you are busy. That is an example of what you are talking about right here in your own family.

Mr. MURDOCK. That is all.

The CHAIRMAN. Mr. LeFevre?

Mr. LEFEVRE. Mr. Chairman, Mr. Murdock asked my question. I simply want to second what Mr. Wolverton said and compliment the witness on his testimony.

The CHAIRMAN. We want to express the appreciation of the committee for your appearance here this morning, and for your statement. I am sure there are a lot of questions we would all like to ask if time permitted.

Mr. SILVEY. Thank you.

The CHAIRMAN. If I may have the attention of the committee, the second call of the House has been sounded. We have Mr. Green here who represents the CIO also. I would like to know what the pleasure of the committee is. I see Mr. Green has a prepared statement here. It may be that since he has copies for all the members, that it would be agreeable with him to have his statement placed in the record and the members take it and read it separately. I believe in view of the status of the congressional session, that might be advisable. What is the pleasure of the committee?

Mr. WELCH. I had hoped, if possible, to have Mr. Green make a statement to the committee.

The CHAIRMAN. So had I, Mr. Welch.

Mr. WELCH. Could it be arranged for some future time, if it is agreeable to Mr. Green?

The CHAIRMAN. The Chairman again repeats that he is merely the servant of the committee. Whatever the committee desires is agreeable to the Chair.

Mr. WOLVERTON. I am awfully, awfully anxious that Mr. Green have an opportunity to present his case to the committee for this reason: Mr. Silvey has given a very fine statement as to the aims and purposes of the organization which he represents with respect to the future.

Mr. Green's organization is the Industrial Union of Marine and Shipbuilding Workers of America, CIO; and that organization has gone a long ways to implement into actual working conditions that which was recommended by Mr. Silvey.

The organization that he represents has over 400,000 workers, and I don't think there has been a single industry in this nation during the war effort that has worked more patriotically without any stoppage in work than that one organization, above all others. In my own city there is a local No. 1, which has 30,000 employees at the peak, and there hasn't been a single day of stoppage of work during the whole war period. Therefore, it would seem to me what we could hear from Mr. Green as head of that international organization would be very helpful.

I don't like to ask Members to remain away from the floor. I didn't know the bells had rung. I suppose we have missed that roll call.

Mr. WELCH. If we have missed the roll call, why not let Mr. Green proceed?

Mr. WOLVERTON. That is what I would like to do, if the Members are willing to stay.

The CHAIRMAN. That suits the Chair.

Mr. Green, will you identify yourself for the record?

STATEMENT OF JOHN GREEN, NATIONAL PRESIDENT, INDUSTRIAL UNION OF MARINE AND SHIPBUILDING WORKERS OF AMERICA

Mr. GREEN. My name is John Green, and I am national president of the Industrial Union of Marine and Shipbuilding Workers of America, CIO.

Mr. WOLVERTON. Mr. Green was an artisan himself in the shipyards, and he formed the first union in Camden, N. J., which is known as Local No. 1. It has grown to this international union which takes in most of our important shipyards, and Mr. Green rose from the ranks to the president of this international organization. So he knows it from the bottom up.

Mr. GREEN. Gentlemen, on behalf of over 400,000 shipyard workers, whom I am privileged to represent. I want to sound a solemn warning. As of today, Congress has failed in its obligations both to the Nation's industrial workers and to the men and women in our armed forces who have carried on so magnificently to place our Nation on the way to victory. I don't want to be misunderstood. I am not just speaking for the Nation's shipyard workers. My plea is for the workers in all industries; for the middle class, for the farmers, and for our loyal men and women in the armed forces. We are all in the same boat. We will sink or swim together in the current of America's economic outlook.

It is a horrible thing to say, but I voice this in all solemnity. Though everyone of us is hoping and praying for a speedy triumph over the Japs, we dread the chaos which must inevitably ensue after VJ-day. Our Nation today, and I am repeating what everyone of you well knows, is as unprepared for peace as we were for war at Pearl Harbor. We, the Nation's shipyard workers, who are feeling the dread hand of the future now, cry out to Congress to act to preserve the American way of life, for which we have made so great a sacrifice in blood and in toil. There is not much time left before us. VJ-day stands as an onrushing, ever-nearing goal to which we are bending all our energies. But the moment we reach that goal, unless something is done now by Congress, by Government, industry, and labor working together, to prepare for the return to peace, we will find our victory bringing us the bitter fruits of economic depression and all its attendant miseries.

We shipyard workers are feeling the hand of the future now. We felt it last September while the shipbuilding industry was still in the full flush of all-out war production. At that time our organization, meeting in national convention adopted a program to provide maximum employment during the inevitable period of cut-back and reconversion which we saw before us, and as many jobs as possible after the peace is won.

In analyzing the status of the shipyard workers in our Nation's economy, we came to the inescapable conclusion that it is necessary not only for America's prosperity, but also for its national security, that an efficient shipbuilding industry be maintained. It's ships for jobs, trade, and peace, right now.

We look back upon history, and saw that the United States, which once was one of the leading maritime powers of the world, had become dependent upon other nations to carry its goods in recent years. We noted the steady decline of the American merchant marine, and

its consequent effect upon American industry. In merchant and naval ship construction in the early 30's, you could have counted on your hand the vessels built. True, our industry was revived somewhat in the ensuing years, but it was nowhere near the status required for America's economic prosperity and national security. The merchant marine program of 1936 involved the first realization of how far our country had sunk into a grave situation regarding the merchant marine. Then we entered into a national defense shipbuilding program. But all that was a drop in the bucket to the requirements that were suddenly forced upon us by Pearl Harbor.

Gentlemen, our Nation must never again face the contingency it did on December 7, 1941. In drafting our proposals for full employment for the shipbuilding industry, the CIO Shipbuilders Union took into consideration the relationship of its members not only to our Nation's economy, but also to their fellow workers in this country and in all of the other nations of the world. We realized that if America's shipyard workers and shipbuilding were not to become wartime casualties, were not to be considered the expendables of our military effort, our program would have to encompass national needs and national welfare.

We determined that the highly trained skills, both managerial and production, of the Nation's shipyard workers, which we required so painfully and through such bitter experience in meeting the demands for wartime transport; and the vast supplies of raw materials and other resources which are waiting to be employed, which are here to answer our Nation's needs, must not be passed into the discard if we have learned anything from the experiences of this war and from the hopes that have been voiced of the nature of our postwar world.

Shipping and shipbuilding are not merely romantic phrases. They are the means whereby nations grow great, and remain great. Shipping and shipbuilding are one of the keys to a postwar era of such unrivaled prosperity that we may well anticipate the rise of a new civilization throughout the world.

Now if there is one thing that we have learned out of the war, it is that labor, government, and industry can sit down together. We did this in the shipbuilding stabilization program, one of the major factors contributing to the almost miraculous production of our industry. And we look forward to the same cooperative action after the war. National defense is so reliant on shipping that tripartite planning for the industry is a self-defense must. Therefore, we propose that there should be a shipbuilding and shipping conference called after the war to investigate the possibilities of trade expansion.

As far as our country is concerned, we have a pretty good idea of the kind of merchant marine that we need after the war. We think it should involve at least 20 to 25 million tons of shipping, of a modern type, capable of meeting international competition. While I will return to this subject later, I make the point here and now that much of the shipping that we built to meet the needs of emergency wartime transportation, especially the Liberty ships, must be considered expendable just as a bomb or a bullet. If we attempt to salvage any of our investment in these ships, we will be encouraging ship speculation, and putting a millstone around the neck of our shipping industry which will drag down the United States to its former position as a

minor maritime nation. As I see it, the backbone of the American merchant marine must be made up of fast combination passenger-cargo vessels, which can be operated profitably. We also need numerous tankers, coastal vessels, or transports, and various other types of vessels for which our war production has not answered the need. In every respect, we need the kind of vessels that can be operated profitably by an American merchant marine.

In the interests of national security, we must never halt our naval construction program, the modernization of our fleet, the maintenance of constant experimental construction to develop new types of vessels reflecting the latest scientific advances. And again I say, let us go back to the tried and tested method we worked out during the war, through tripartite planning of Government, labor, and industry.

The previous speaker hit upon the councils. I want to just emphasize that this is something he was referring to. All industries, whether we like it or not, have been subsidized in some form or another by the Government. Therefore, here is one place that we can experiment and see if we can get that harmony that is necessary for good production and good relationship. I strongly urge the creation of such a committee to consider postwar planning for the industry along the lines I have indicated above.

We already have such a tripartite committee functioning, the Shipbuilding Stabilization Committee. This committee could very readily be adapted to consideration of the future of the industry. If it cannot assume this responsibility, it should be reconstituted, with an adequate number of technical experts who will be qualified to assume the task of building the future of our industry.

Since the problems of shipping and shipbuilding are so closely tied up with those of foreign trade, and hence with the foreign policy of our Nation, I also feel that a representative of the State Department should be delegated to assist this technical committee in its functioning.

I have not paid much attention to the major financial interest of the Government in shipbuilding, because these are self-evident. You gentlemen are no doubt familiar with the Government's huge investments in permanent shipbuilding facilities and in housing in and around shipyard areas. I make the point solely to bring out the fact that only the productive utilization of these facilities will return to the Government its investment.

We now come to the most important phase of the problem, namely, the workers themselves, who, as I urged you previously, should not be considered the expendables of the war effort. For shipyard workers cannot be trained overnight. Once the nucleus of our highly skilled shipbuilding force is gone, the shipbuilding industry will be lost to the Nation for good. Therefore, postwar shipbuilding and ship repair are dependent upon the continuous employment of skilled craftsmen in well established modern shipyards. In order to maintain the employment of this group, and thus to maintain the industry, shipyard employment must be made attractive. It must maintain the same cooperative wage level as other industries in our Nation.

We feel that this can best be done by the establishment of a guaranteed annual wage, and our union has proposed such a plan for consider-

ation by the Shipbuilding Stabilization Committee. In order to set up an equitable and satisfactory guaranteed annual wage plan, we again propose a tripartite technical subcommittee of Government, management, and labor representatives. True, there already is a committee functioning for study of the guaranteed annual wage plan, which was organized upon instructions by the late President Roosevelt. But the shipbuilding industry, because of its division into two major types of occupations, new construction and ship repair, presents further difficult and unique problems in any consideration of a fixed annual wage.

However, we believe that a technical subcommittee considering a guaranteed annual wage plan should be responsible for the formulation of definite proposals. This should be left to collective bargaining between labor and industry or to determination by the full stabilization committee.

In advancing our proposal for a guaranteed annual wage, our union recognized the fact that there must of necessity be a decline in the manpower requirements of shipbuilding and ship repair work. We think a healthy industry could be achieved for the United States by maintaining the level of employment at about 1,000,000 workers for the remainder of this year, 750,000 workers in 1946, and a half million workers in 1947 and thereafter. We arrive at those figures from the data and information supplied us by the Navy Department and the Maritime Commission.

As far as I can see, a minimum of 400,000 to 500,000 workers in shipbuilding and ship repair will be needed to carry out the ambitious program which we foresee as necessary in the interests of national prosperity and national security.

It must be realized that the demands of war production are beginning to taper off. Therefore, in order to maintain this employment, which will alone prevent a chaotic disruption of the industry, the workweek must be reduced from the present 48 hours to 40 hours and then to 35 hours. At the same time, we insist that it is absolutely essential that our present earning levels be maintained in order to assure adequate purchasing power among the workers.

All the wasteful practices of the industry must be eliminated. In order to make maximum utilization of the manpower resources, we see the necessity for such programs as industry-wide insurance of the worker and his family against the hazards of injury and illness—with labor and management each bearing half of the cost. There must be a full year's employment for every worker, or at least a full year's pay under the guaranteed annual wage plan. And in order to regularize employment, port-wide union hiring halls must be established. Under such a program, work must be regularly scheduled so that the working force within each port will be kept constantly employed, whether in one yard or another, and established seniority must be maintained accordingly.

Similarly, wasteful practices like the shape-up in repair yards must be abolished in favor of union hiring, and workers who are required for repair of vessels should be given at least 24 hours notice in advance of their employment.

Government navy yards, which have been the weather vane of the industry, will have to realize the role they play and mend their ways. Much grief has been caused to both shipbuilders and shipyard workers by unilateral navy yard action in industry. Government yards must recognize and engage in the same type of collective bargaining and labor relations as do private yards unless they are to be a millstone around the neck of the industry. In 1932 navy yards instituted a 15-percent cut in wages. With the speed of an avalanche private yards, too, cut the pay of their employees by 15 percent. Government yards also developed the system of several classifications of mechanic, handyman, and helper, which is now plaguing the industry by acting as a bar to interchangeability of skills and flexibility within crafts. Navy yards must begin to regard themselves as an integral part of the industry and must strive for its stabilization rather than act as a chaotic influence.

Finally, working conditions within the various shipyards must be improved. Proper sanitary facilities and eating facilities must be installed in older shipyards. And in all shipyards wage structures should be adjusted to correct the Nation-wide inequities which have arisen as a result of the Stabilization Act of 1942. These are the conditions which will make shipbuilding employment attractive and desirable, and which will maintain a labor force in the industry now and after the war.

We owe it not only to the workers, but also the thousands upon thousands of shipyard workers who answered the call of their nation to go into the armed forces to assure them full employment. And we owe it to our Nation to keep a smany of these workers employed as possible so that they can contribute their part toward its economic prosperity and its military security.

In conclusion, there is one more idea that I would like to advance. And that is that shipyard labor and its leadership should be represented on any group which will decide the future allocation of contracts in the industry.

At the beginning of the national emergency the union proposed to the procurement agencies a tripartite discussion of the allocation of contracts, so that labor facilities and materials would be used in a regulated and orderly fashion. This was never put into practice, and the lack of orderly allocation of work has made itself felt throughout the history of our Nation's wartime shipbuilding and ship repair production.

From the very beginning of our war effort, our industry was characterized by a series of crises. First, it was a cargo-ship crisis, then an anti-submarine-boat crisis, then an aircraft-carrier crisis, and crisis after crisis until now we are confronted with a repair crisis. In 1942 we warned the Government procurement agencies that there would be a crisis in repair work on the west coast and also on the east coast, although not so much in the latter because of the long-established yards there. Three years ago we told the Government that this nucleus of highly skilled shipyard workers who were essential to ship repair and also to new ship construction were being dissipated because of substandard conditions, namely, the refusal of the Government procurement agencies to permit the payment of a differ-

ential for the higher skills involved in repair work in southern California yards and the refusal of the Navy to pay such a differential in its own shore establishments.

Today we are reaping the fruits of these seeds of dissatisfaction about which the union warned 3 years ago, and to which the Government agencies turned deaf ears because there was no tripartite planning agency to plan for the future.

I reiterate again and again, gentlemen, shipping and shipbuilding must be planned. Ships are long-range propositions that take time to build. Shipyard workers cannot be made overnight. They require extensive apprenticeship and training courses, as well as experience on the job. Shipyard facilities are huge industrial plants requiring vast concentration of capital over a long period of time before they are set up upon an efficient, functioning basis.

Gentlemen, we must plan to make use of these facilities, of the Nation's shipbuilding experiences, of the Nation's qualified shipyard workers. We must plan for the peace as we did not plan for the war. Because in the peace we cannot afford to repeat the mistakes which gravely threaten our Nation's welfare.

On behalf of myself and my fellow members of the CIO shipyard workers, I say to you we must not go through another depression, which for us began in the 1920's, but we also do not again want to see another Pearl Harbor, with a Nation caught with its production pants down.

There is only one answer to this. There is only one method to assure our Nation's economic prosperity and its future security, and that is by planning. And we of labor insist that we have earned a right to sit in on any council which will conduct such planning.

Mr. WOLVERTON. Mr. Chairman, I notice in the statement made by Mr. Green, which we all appreciate, that he made reference to a proposal of tripartite planning in the shipbuilding industry on reconversion, and I would assume that it would be helpful and probably desired by Mr. Green that that be made a part of his remarks.

The CHAIRMAN. I see no objection. Without objection, it will be done. (See exhibit 2, p. 2367.)

Mr. GREEN. When I asked for this tripartite set-up, that meant plan for new work as well as reconversion. While there are some yards that do only new construction or repair, there are many yards that do both—they are called combination yards. They include such yards as Federal Shipbuilding & Drydock Co.; Sullivan Drydock & Repair Corp.; Bethlehem Steel Co. (Staten Island yard and San Pedro yard); Alabama Shipbuilding & Drydock Co.; George Lawley & Sons, Inc.; Luders Marine Construction Co.; and Sun Shipbuilding & Drydock Co.

You cannot divide the industry up and say that you will have tripartite planning and operation in this section of the industry and none in that section. Not only would it bring chaos into the industry, but it would result in chaos in the individual combination yards listed above. Furthermore, the training of a skilled mechanic requires the same length of time for workers on new construction as it does for repair and conversion workers.

This planning must be port-wide, in order to keep a nucleus of skilled men within each port. If we hope to keep the industry as a cohesive entity, we cannot afford to neglect this problem of stabilizing employment on a port-wide basis.

Mr. WOLVERTON. I notice you have a summary of the union proposals to Robert Nathan. Will you explain to the committee who Robert Nathan is, and whether you would like that to be part of your remarks?

Mr. GREEN. Robert Nathan, I understand, works very closely with the President on postwar planning, and this union presented to him certain proposals which he, in turn, I suppose, was to present to the President of the United States. He is Assistant Director in Charge of Reconversion of the Office of War Mobilization and Reconversion.

I have no objection to that becoming a part of the record.

The CHAIRMAN. Without objection, so ordered. (See exhibit 3, p. 2372.)

Mr. WELCH. Mr. Green, I desire to compliment you on your forceful and convincing statement with reference to an American merchant marine adequate to meet the requirements of national security and our postwar economy.

There are forces working at this time, as you perhaps know, which would reduce our American merchant marine to the level of a small fleet of tramp steamers. A very influential force as I am informed is at work on that.

Mr. GREEN. I think your sentiments are pretty much along the same line as my own.

Mr. WOLVERTON. I would like to say, Congressman Welch is a member of the Committee on Merchant Marine, and anything he would say in that respect you can rest assured has a basis of real fact.

Mr. GREEN. Well, gentlemen, this charter that was finally worked out in San Francisco will not be worth the paper it is written on unless America takes the leading role, and she can only do it by having a merchant marine that places her in the leading position to carry out the trade that will be necessary to make that charter function.

Let me stress that basic to any political move the country undertakes is the economic goal and its satisfaction or lack of satisfaction with the consequent fears, prejudices, and hatreds which each country manifests.

Today we are in a favorable economic position while the rest of the world is in an unfavorable position. The rest of the world will be looking to us for the spark that will send them off to greater industrial development and activity than they ever knew before.

We have the power to give or deny them that spark—the raw materials, the food, the machinery, and the half-processed and fully processed goods. The advantage they will receive from us if we give them the push is evident. No less evident is the advantage we will receive in the employment of money, materials, plants, and men in providing the materials for the push.

The National Planning Association pamphlets Nos. 37-38, called *America's New Opportunities in World Trade* says as follows: ¹

The United States will have a postwar producer's goods industry of a size at least twice that likely to be needed to meet maximum domestic requirements, even under conditions of sustained full employment. Conversion of a large part of this heavy industry to other lines of production is impossible. Machine tools, construction and mining equipment, railroad equipment and vehicles, and auxiliary materials such as rails to go with the exported machinery, will be sorely needed by foreign countries after the war. The industries which produce these materials have expanded most during the war. By meeting foreign needs, they could not only substantially contribute to full employment, but could facilitate correction of the presently distorted productive capacity by enabling adjustment over a period of 5, 10, or more years. Activity in these "investment" industries would have the strangest expansion effect upon the economy as a whole * * * [Furthermore] opportunities for sound foreign investment would help reduce the excess savings which stand in the way of full employment, and which otherwise will have to be drained off by other means * * * It is therefore sound national policy to strive for maximum stimulus to private foreign investment. (Supplemental when necessary by public capital export) as well as maximum private domestic investment. We refer, of course, to sound and productive foreign investment.

It has been said that the loans and investments made by the United States since the last war were almost entirely lost. This is untrue, as the following table shows: ²

| | <i>Billions of dollars</i> |
|---|----------------------------|
| 1. What the United States put in— | |
| Estimated investments abroad at the end of 1919..... | 6.5 |
| Net new investments abroad from 1920 through 1940 (gross new investments abroad of 11.8 billion dollars less amortization receipts on foreign dollar bonds and net resales of foreign securities to foreigners of 4.9 billion)..... | 6.9 |
| Total..... | 13.4 |
| 2. What the United States got out— | |
| Value of investments abroad at end of 1940..... | 9.8 |
| Income payments received on investments abroad from 1920 through 1940..... | 13.9 |
| Total..... | 23.7 |
| 3. Excess of what the United States got out over what the United States put in..... | 10.3 |

The article goes on to say:

The "average" investor with well-diversified holdings abroad not only got his money back, but also a substantial sum in addition.

It should be noted that income payments received from investments abroad from 1920 to 1940 exceeded net new investments in the same period by \$7,000,000,000, and exceeded total foreign investments by \$500,000,000.

At this point, I think that we should remind ourselves that as the countries achieve full industrialization, it does not mean that they will cease buying from us. The truth is that as they industrialize more fully, they will increase their purchases here and we will increase our purchases there. In the past our biggest customers were not India and China, but Japan, Canada, and England. Likewise,

¹ Pp. 49-51.

² Survey of Current Business, November 1944, p. 11, in an article called *Foreign Trade in the Postwar Economy*, by August Maffry, chief, International Economics and Statistics Unit, Bureau of Foreign and Domestic Commerce.

most of our imports came from Japan, Canada, and England, and not from India, China, and Egypt.

An analysis of the foreign trade (imports and exports) of the United States, with three highly industrialized and three poorly industrialized countries from 1933 to 1939, supports my statements. I herewith submit the table, computed from data compiled and tabulated by the Bureau of Foreign and Domestic Commerce of the Department of Commerce in its 1942 Supplement to the Survey of Current Business, pages 90, 92.

United States foreign trade average monthly value of imports and exports in thousands of dollars

| Countries | 1933 | | 1934 | | 1935 | | 1936 | |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Imports | Exports | Imports | Exports | Imports | Exports | Imports | Exports |
| United Kingdom..... | 9,268 | 25,978 | 9,613 | 31,896 | 12,940 | 36,117 | 16,699 | 36,677 |
| Canada..... | 15,451 | 17,554 | 19,308 | 25,203 | 23,870 | 26,933 | 31,319 | 32,013 |
| Japan..... | 10,701 | 11,953 | 9,938 | 17,540 | 12,742 | 16,940 | 14,312 | 17,029 |
| British India..... | 3,647 | 1,655 | 4,590 | 2,287 | 5,165 | 2,619 | 5,862 | 2,234 |
| China..... | 3,151 | 4,329 | 3,661 | 5,722 | 5,350 | 3,179 | 6,186 | 3,902 |
| Egypt..... | 511 | 318 | 746 | 572 | 474 | 873 | 858 | 836 |

| Countries | 1937 | | 1938 | | 1939 | |
|---------------------|---------|---------|---------|---------|---------|---------|
| | Imports | Exports | Imports | Exports | Imports | Exports |
| United Kingdom..... | 16,891 | 44,707 | 9,853 | 43,407 | 12,451 | 42,117 |
| Canada..... | 33,192 | 42,443 | 21,681 | 38,981 | 28,330 | 40,759 |
| Japan..... | 17,017 | 24,047 | 10,564 | 19,972 | 13,434 | 19,349 |
| British India..... | 7,995 | 3,646 | 4,863 | 2,787 | 5,533 | 3,568 |
| China..... | 8,635 | 4,152 | 3,932 | 2,893 | 5,153 | 4,635 |
| Egypt..... | 1,128 | 1,143 | 398 | 1,110 | 585 | 1,154 |

Source: U. S. Department of Commerce, Bureau of Foreign and Domestic Trade, 1942 Supplement, Survey of Current Business, pp. 90, 92.

Two things are requisite to providing the push that will insure the economic stability that is the basis for political stability and harmony within and between nations:

1. We must be prepared to buy as well as sell. We must accept the products of other nations as payment for the products of our nation.

2. We must have a merchant marine adequate to provide for the transportation of these goods. Since the United States will, for a longer time than we can envisage, remain dominant in foreign trade, our merchant fleet should likewise remain dominant in the world's merchant marine.

Mr. WELCH. There should be no restrictions placed on our American merchant marine. It should have equal opportunity with merchant fleets of all other maritime nations. Restrictions, however, have been placed on our American merchant marine through the interpretation of the Civil Aeronautics Act of 1938 by the Civil Aeronautics Board in denying to the American Merchant Marine the coordination of air and surface service in foreign trade.

Mr. GREEN. I don't have copies of the Bland bill with me, but on a casual perusal of it, I am afraid that bill, if finally passed in its present set-up, will bring about the things that you and I are afraid of.

Mr. WELCH. You mean the recent bill reported by the committee?

Mr. GREEN. I think this is the third change.

Mr. WELCH. That bill will have to be changed. I did not have that bill in mind. I had in mind the Civil Aeronautics Act of 1938 as interpreted and construed by the Civil Aeronautics Board, which denies to the American merchant marine equal opportunity with merchant marines of all other maritime nations.

Mr. GREEN. I am not familiar with that, sir, but thanks for the information. We will look it up and we will have a say at the right time, I hope.

Mr. WELCH. Congressman Wolverton is in position to acquaint you with the facts concerning it. He has been assisting in the fight, and very materially, to give our merchant marine equal opportunity with every other foreign flag merchant marine.

Mr. GREEN. I wouldn't like to see the same thing happen after this war that happened after the last war when we turned over a lot of our shipping to Japan and put it on the way to being the third biggest maritime nation.

Mr. WELCH. I have been a member of the Committee on Merchant Marine for the past 20 years. I would like to have your observations with reference to the Bland bill recently reported by the committee.

Mr. WOLVERTON. You don't mean today, do you?

Mr. WELCH. No, not today.

Mr. GREEN. I will see that you get that.

Mr. WELCH. I would like to have you send me a statement expressing your views.

Mr. GREEN. You can rest assured that I will do that.

The CHAIRMAN. Mr. Wolverton, did you have anything further?

Mr. WOLVERTON. Nothing, except to say I feel justified in having made the request for Mr. Green to be called as a witness before this committee, by this enlightening statement that he has given it, and I am sure it is a statement, Mr. Green, that the committee will give very careful and serious consideration to.

Mr. MURDOCK. Mr. Chairman, I am a landlubber from the desert. I do not have a lot of interest in this matter, but I do need a lot of information.

I take it, Mr. Green, that you feel the world commerce and trade plays a mighty important part in our economy?

Mr. GREEN. Yes, sir. I don't have a chart here with me. I forget the year, but it showed in that chart that our industry was at its peak in this country, while our foreign imports were at the same level, and as it went down, so went employment in our industry.

I may be called a free-trader, but I believe in the exchange of goods. As I said, if that charter is going to mean anything, and I hope it does, then it means the interchange of goods. I hope it means the uplifting of standards of living.

The Survey of Current Business of the Department of Commerce for November 1944, on pages 5 and 8, had charts which show the relationship between American foreign trade, our national income, and our industrial production. All three followed almost the same ups and downs for the same periods of time.

This has definitely been the case from 1923 to 1941, as the table I herewith submit demonstrates.

Foreign trade and national income, United States, 1923-41

| Year | Average monthly value of imports ¹ | Average monthly value of exports ¹ | Gross national product ² | Year | Average monthly value of imports ¹ | Average monthly value of exports ¹ | Gross national product ² |
|-----------|---|---|-------------------------------------|-----------|---|---|-------------------------------------|
| | <i>Thous. of dol.</i> | <i>Thous. of dol.</i> | <i>Billions of dol.</i> | | <i>Thous. of dol.</i> | <i>Thous. of dol.</i> | <i>Billions of dol.</i> |
| 1923----- | 216,005 | 340,893 | 70.4 | 1933----- | 120,797 | 137,268 | 64.1 |
| 1924----- | 300,830 | 374,804 | 70.5 | 1934----- | 137,921 | 175,011 | 70.1 |
| 1925----- | 352,216 | 401,560 | 73.7 | 1935----- | 170,624 | 186,923 | 76.1 |
| 1926----- | 369,241 | 392,643 | 79.4 | 1936----- | 201,883 | 201,581 | 87.6 |
| 1927----- | 348,729 | 396,572 | 79.5 | 1937----- | 256,972 | 274,911 | 90.0 |
| 1928----- | 340,954 | 419,175 | 81.9 | 1938----- | 163,369 | 254,764 | 84.7 |
| 1929----- | 366,613 | 429,757 | 87.7 | 1939----- | 193,173 | 260,279 | 94.4 |
| 1930----- | 255,076 | 315,098 | 80.1 | 1940----- | 218,782 | 327,848 | 102.2 |
| 1931----- | 174,220 | 198,165 | 72.5 | 1941----- | 278,802 | 416,702 | 119.6 |
| 1932----- | 110,231 | 131,316 | 62.0 | | | | |

¹ Monthly average, from Survey of Current Business, 1942 Supplement, U. S. Department of Commerce, p. 91 (imports); p. 93 (exports).

² Adjusted to 1941 price levels, from National Budgets for Full Employment, National Planning Association, Washington, D. C., table B-2, p. 72.

The free exchange of goods will help cement friendly relations between nations. I think that all this talk about foreign countries being our competitors neglected one important thing. These countries are also our customers, and we theirs. You may engage in economic and political wars with your competitors, but you do not do so with your customers.

The Charter means political stability which will encourage the free exchange of goods, and international agreements like Bretton Woods will provide the economic stability which will also encourage the free exchange of goods.

Together, the Charter and Bretton Woods will mean increasing standards of living of all the peoples of the world.

MR. MURDOCK. You are from the Atlantic coast. Do you feel like making a comparison, not odious, of the Atlantic with the Pacific coast? Do you believe that the Pacific Ocean, henceforth, will be the ocean of commerce?

MR. GREEN. I would be shortsighted if I didn't think the Pacific coast will expand insofar as shipping is concerned.

In an article in the *Journal of Commerce* of December 18, 1944, Stanley Ferguson writes as follows:

The Pacific Ocean, to all present appearances, offers one of the most promising fields for expansion of American-flag shipping in the years following the war.

Besides being the highway between our own industries and the greatest potential market in the world, it is a road upon which our own merchant marine can expand to a very large degree at the expense of virtually no one but the Japanese who can scarcely expect much consideration when their account comes up for final settlement. It is not surprising that the first applications for post-war routes filed by shipping interests with the Maritime Commission show a strong leaning toward this area.

Mr. Ferguson goes on to say that while the Japanese market, which absorbed 78 percent of our exports to East and Southeast Asia in 1937, and which produced or absorbed 60 percent of the 17,576,735 tons of our exports and imports moving in the trans-Pacific trade in that year, will be eliminated. China, India, the East Indies, and southeast Asia—a bloc which not only offers the world's greatest potential market, but also has virtually no shipping of its own—will offer us great opportunities for shipping and trade.

At the same time, we must forget that industrialization of our own for the western ports of South America, particularly Bolivia and Chile, offers the great opportunities for intercoastal shipping on the west.

Both transoceanic and intercoastal shipping on the west coast should have great opportunities for expansion.

Mr. MURDOCK. Yes, it will. I certainly agree with you that we don't want to see happen again what happened after the other war. We have built a great merchant marine. Let's keep it and use it.

Mr. GREEN. I think we have to face these facts. I want you to get me correct here. I am not a war-monger, but I believe we have earned a rightful place in history, and we ought to take the opportunity of it, and spread a little bit if this American democracy to other parts of the world, and the best way to do it is to help people help themselves. The way to help people help themselves is to encourage them to industrialize and to increase their standard of living. There are three things we must do. We must first help provide the necessary political and economic stability of money and prices. The Charter, Bretton Woods, and relief and rehabilitation will satisfy this necessity. Second, we must lend these countries the necessary capital goods and raw materials which they will need for their industrialization. Third, we must be prepared to buy from them so that they will have money with which to pay for purchases and loans from us.

The CHAIRMAN. Mr. Hope?

Mr. HOPE. Mr. Chairman. I am just another landlubber.

Mr. WOLVERTON. May I say for the benefit of these so-called landlubbers, that my study of the shipbuilding industry shows that the material that goes into a ship comes from every State in the Union. I further want to emphasize the fact that when Mr. Green made reference to skilled workers who would be lost to this industry unless there is a program of building in the future, he spoke of a very vital matter.

There is no industry that requires so many varied trade skills as the shipbuilding industry. So when he speaks of that being lost, that is a very important item to be considered.

I remember the time when we had but one ship being built in Camden, and we went to the Secretary of the Navy and begged and pleaded for additional work, when that ship would be completed in order that we might keep together a skeleton force. There is very little common labor that enters into a shipbuilding program. It is mostly skilled workers of every type and kind.

The CHAIRMAN. I am sure we appreciate that contribution, Mr. Wolverton.

Mr. Hope?

Mr. HOPE. When I confessed to being a landlubber, I wasn't bragging about it, but I was trying to offer it as an excuse for my ignorance if I should ask some questions here that didn't seem to be very sensible. I depend on men like Mr. Wolverton and Mr. Welch to keep me straight on this question of merchant marine and shipbuilding. We consider them experts.

I am asking this question purely for information.

A program such as you have outlined here would require a Government subsidy to keep it going, wouldn't it?

Mr. GREEN. Correct. The Government has subsidized the shipbuilding industry in one form or another. I suppose you can ask the

question of the Secretary of the Navy. He makes no bones about it. It has been the practice of the Navy Department to give work to certain big yards to keep them going in peacetime. By legislation, you have subsidized the shipping end of the business, and certainly when you subsidized the shipping end, that is reflected in the building end.

If my memory serves me correctly, your two Camden liners that were built in the city of Camden, the *Washington*, and *Manhattan*, were subsidized straight out by the United States Government. I think we have got to face this thing and be candid about it, because practically every maritime nation in the world has subsidized their merchant marine and shipbuilding. I think you gentlemen know that the *Queen Mary* and *Queen Elizabeth* were two ships that were built to create jobs and were subsidized by the British Government. They have subsidized other ships. The same is true for Norway, France, Italy, and other nations.

I believe that if we get an efficient fleet, it would be well worth the subsidy, because it will bring back returns, and those returns are good will of the people throughout the world.

I want to add this thought: Subsidies are paid to the American shipping companies in order to reduce the difference in labor costs that exist between American and foreign shipping operations. We hope that these subsidies will decrease in size and that they will soon be eliminated, as international agreements on wages and working conditions of men in the maritime industry are consummated.

MR. HOPE. I presume you are considering also in that connection the benefits to national defense that might accrue from such a program?

MR. GREEN. Yes, sir.

MR. HOPE. I am not questioning the policy. I have no well-defined views on it. I am just asking for information. It seems to me it would be necessary to subsidize it, as you have said, and I think we might as well face that question frankly. As you say, other nations are subsidizing merchant marine and shipbuilding.

I suppose there is no industry that is more competitive internationally than the shipping industry; is that correct?

MR. GREEN. That is correct.

MR. HOPE. That is all.

THE CHAIRMAN. Mr. LeFevre?

MR. LEFEVRE. I am not too familiar with this merchant marine set-up either.

You recommend postwar tonnage of 20 to 25 million tons. Could I ask you what the tonnage is today?

MR. GREEN. According to the latest figures we have about 45 million tons of shipping. This should increase to about 56 million tons by the end of the shipbuilding program. How much of that is Liberty ship, I am not prepared to state, but we will have built, by the end of the Liberty-ship program, 2,661 Liberty ships. I would conservatively estimate that between 22,500,000 and 25,000,000 tons of merchant shipping today are Liberty ships. This means that we have between 2,250 Liberty ships left unsunk.

MR. LEFEVRE. You state that we should maintain about 1,000,000 workers and cut it to about 750,000 in 1945 and to about one-half million the next year.

Could I ask you how many ship workers there are now?

Mr. GREEN. According to the Bureau of Labor Statistics there were about 1,400,800 workers in the industry in February 1945. Those figures we gave you are figures according to the shipbuilding program as we know it today.

Mr. LEFEVRE. Have you any idea out of that 1,400,800, how many are out of the building industry?

Mr. GREEN. I couldn't give you any figures as far as that is concerned. I would say, insofar as the west coast is concerned, a bulk of the mechanics were men who came out of the construction industry. That is not true of this coast, because this coast had established shipyards.

We have in the industry on the east coast a considerable number of miners. The latest figures showed that we had somewhere around 12,000 in 3 of our yards, who came from the Pennsylvania coal fields. It should be remembered that in January 1935, there were only 63,000 workers in the shipbuilding industry. This includes naval and private shipbuilding and ship repair. That means that at present, about 1,340,000 workers came from other industries. A good number of these learned their electrical pipefitting, plumbing, machinist, boilermaking, and so forth, trades in other industries.

Mr. LEFEVRE. Someone told me about some yard out on the west coast built up just during the wartime, having 40,000 workers. Isn't it a natural thing to expect when that building is over those men would drift back into the construction industry?

Mr. GREEN. Some of them will drift back to the construction industry and some of them will drift back to the farms, or back home wherever they come from. It depends upon the availability of work in their former industries and trades. We have made some survey of reemployment of laid-off shipyard workers.

In the Norfolk Shipbuilding Co. yard (Newport News, Va.), 70 percent of those laid off found jobs in other shipyards while the rest have gone to other industries.

In the Dravo Corp., Neville Island yard (Pittsburgh, Pa.), the laid-off workers found jobs in the Pittsburgh-Des Moines yard on Neville Island, in the American Bridge Co. yard in Ambridge Pa., or with subcontractors in this yard, and some have gone to Baltimore and even California.

In the Sun Shipbuilding & Drydock Co. yard in Chester, Pa., some of those laid off got jobs in other industries, or went back to their old communities.

In the Jeffersonville Boat & Machine Works yard in Jeffersonville, Ind., the workers laid off went into other industries and some refused to come back when called back to work, figuring that the postwar status of their new jobs was more secure than that of their old jobs.

In the New England Shipbuilding Corp. yard in Portland, Maine, where lay-offs have been especially hard, 10 percent of those workers laid off found jobs in other shipyards, 70 percent in other industries, and 20 percent into self-employment in their own shops and farms.

Mr. LEFEVRE. I think there is a problem that we have. What are we going to do with them?

Mr. GREEN. Well, as I said in my opening statement, I wasn't only talking for shipyard workers, but for workers in general. I suppose

that is the job of your committee to try to find the ways and means for getting employment, no matter what the industry is.

I was born and raised in the shipbuilding industry. I came to this country at the age of 14, and was surprised that a country of this size had no maritime fleet, and no shipbuilding program of any size. Employment went down as low as 36,000 in this industry during the twenties. Prior to the defense program, we had 63,000 people in the industry, and that was built up to a little over 1,750,000. It was a tremendous job. We did it. We trained the people with the nucleus we had.

I can say this without fear of contradiction. Most of the people employed in the shipbuilding industry during this war effort, never saw a ship in their lives. I think that is to the credit of both management and labor in the industry.

Mr. LEFEVRE. That is all.

Mr. HOPE. I would like to ask one question on that point.

Has any effort been made to determine how many of these people who are now in the shipbuilding industry, most of whom have never seen a ship, would like to remain in that industry?

Have there been any polls made?

Mr. GREEN. About 10 percent of the wage earners and 10 percent of all workers in the industry are women. These will be leaving the industry as the need for shipyard workers is reduced. They will go back to their homes or to their previous employment. It is also to be presumed that those workers who came from the building trades will want to return as the employment in the shipbuilding industry is reduced and as employment in the building construction industry increases. In the area from which I come, the local put out a questionnaire, and we found that an average of about 25 percent want to leave the industry. But, unfortunately, with the cut-backs and War Manpower Commission controls, we can't get these people to move, and it is rather unfortunate because there are lay-offs and the people who want to stay in the industry are the people that are laid off.

Those who want to go back to their old line of business are kept on.

Mr. HOPE. How do you account for that?

Mr. GREEN. We have got the War Manpower Commission controls right now. Until they are loosened up, there is nothing to do about it.

Mr. HOPE. What you are saying is there ought to be some consideration given at the present time to keeping on the job those people who want to stay and that the War Manpower Commission gives no consideration whatever to that fact?

Mr. GREEN. That is true.

Mr. WELCH. How long will it require to complete the present program of new construction on the east coast?

Mr. GREEN. In some of the yards we have got Navy work that takes us through to the middle of 1946. Merchant-marine work will take about to the latter part of this year. Up until the present time, no new construction has been let.

Mr. WELCH. In asking that question, I have in mind the sale of surplus ships estimated at about 28 to 30 million tons which cost approximately 17 to 18 billion dollars. However, they are not entirely the type of ships necessary for our postwar economy. The Liberty ship has served its purpose during the war, but it is a slow

ship. It is not the type of ship to meet foreign competition. We must have a better type of ship.

We will have but few passenger ships. Our coastwise and inter-coastal ships have been practically wiped out. Those particular lines should be rehabilitated and better and faster ships for overseas trade should be built by this country in order to compete with foreign nations which are now building better and faster ships than we have at the present time, with all our surplus of ships.

Mr. GREEN. I hope I stressed that point. If not, I wish to repeat again that we must build a new type of cargo passenger anywhere from 18 to 22 knots. The Liberty ships are expendables, and I think we should treat them as such.

Mr. WELCH. The Japs had a fleet of dry-cargo ships before the war with a speed of from 20 to 22 knots. The average speed of our merchant marine before the war was something like 9, 10, or 11 knots, with the result that many lives were sacrificed by reason of their being so slow.

Mr. GREEN. I think the Liberty ship served its purpose.

Mr. WOLVERTON. I would like to emphasize just what you said, Mr. Welch, with reference to speed. It is a matter of history that this Nation stood foremost as a merchant-marine nation in the days of clipper ships. At that time the clipper ships were the fastest that were on the seas. Consequently, the trade went to our clipper ships.

Mr. HOPE. What happened. What happened that we lost the supremacy you speak of?

Mr. WOLVERTON. We lost it because other nations took up the speed idea and subsidized their merchant marine and made it impossible from a competition standpoint for American merchant marine to stand up.

Mr. HOPE. Did we subsidize the clipper ship?

Mr. WOLVERTON. No, sir.

Mr. HOPE. Here we were the greatest maritime nation, as I understand it, with speedy ships, and all of a sudden we drop clear down to the bottom.

The CHAIRMAN. Will you pardon an interruption there? I think this will throw some light on it. It was about that time we began to put emphasis upon industrialization. We went inland. We neglected our merchant marine.

Mr. HOPE. Change in the national policy?

The CHAIRMAN. That is right.

Mr. GREEN. For your information, I think we have got to go back to the Civil War. It was during that period that we began to lose our trade. Even during that period a lot of our money left this country and went to Great Britain to build ships. I think that is about where it started.

The CHAIRMAN. Time is growing short.

Mr. Green, I want to extend my thanks to you for appearing here this morning. I want to add to the compliments that have been paid, and I also want to quarrel with you a little bit, which seems to be refreshing here this morning.

In the first place, I want to say to my friend I know something about building ships, and I have watched this. I have got quite a number of big shipyards in my own front yard where we are building these

ships you are talking about. I agree with you on what you said about the necessity of a program after this war.

I want you to bear in mind that this committee has given considerable study to the question of the future of the merchant marine in foreign trade, the necessity for a merchant marine. The committee set up a subcommittee, of which Mr. Worley of Texas, was chairman, and Mr. Welch and Mr. Wolverton and others were members, and we made a report, the sixth report of this committee.¹ It is that that I want to quarrel with you a little bit about.

In your opening statement you say:

As of today, Congress has failed in its obligations both to the Nation's industrial workers and to the men and women in our armed forces, who have carried on so magnificently to place our Nation on the way to victory.

To me, that seems to be a pretty strong indictment of the Congress and of this committee when I point out, as I did, this committee made a study of that subject, made a report, which report, by the way, was generally favorably acclaimed by the country.

I recall, for instance, that the New York Times said, editorially, that that was one of the best, if not the best reports that had come out of any congressional committee in many years.

There were many other editorials. Among them was the Washington Post. The State Department received our report with acclaim.

Then I want to call your attention further to the fact that for the first time in the history of this country, the Congress has set up during a war period committees of the Congress to make special studies of the postwar era.

Some of these remarks in your statement, for instance, might have been taken from my own statement presented to the Congress upon the adoption of the resolution setting up this committee to study these postwar problems.

What I am trying to say is that the Congress has been on the alert; the Congress has been diligent; the Congress has, for the first time in the history of the country set about to try to meet these problems.

Of course, these problems are many and intricate. We are pioneering. The whole world economy is involved in this subject.

While I agree with you that it is the duty of the United States, the duty of the Congress, of the American people, to see that our merchant marine never goes back to the status that it had at the beginning of the war, yet, I want to call your attention to the fact that in the report that this committee made to the Congress, we took into consideration those matters and made certain recommendations.

Among others, we said that very thing you have just said—that the merchant marine shouldn't go back. We recommended, as I recall, that it was necessary for the Government to subsidize both the shipbuilding industry and the operation thereof, in view of world conditions, and world competition both in shipbuilding and in the matter of the standard of living in order to keep that merchant marine up to gain that objective.

Of course, this committee must consider the whole problem, and not just one angle of it. You and I are particularly interested in shipbuilding. Yet, if we were to follow that to its final conclusion,

¹ H. Rept. 541, 79th Cong.

we might run into this world economic situation which might be embarrassing and might defeat our objectives.

Suppose we so accentuated and emphasized the merchant marine that we took it away from Britain, Norway, Sweden, and other nations. We might run into complications there that would upset the whole world trade and defeat the objective that we want.

We might not all agree on free trade. I am not so sure where I stand; but I am inclined to be with you along that line. But there are many things to be considered.

This committee, for the past 15 months, has been meeting around the table. We have heard from every group, every segment of our economy from industry, from labor, from agriculture, from every segment of the people, trying to make recommendations to the Congress that would solve some of these many and intricate problems that are going to face us in the postwar period.

There is one thing above everything else that this committee has stressed—two things, I might say, and if I am incorrect in that, I am sure someone will feel free to so state. We have stressed that in this postwar economy, there were two things necessary, and that was gainful employment and an atmosphere for private industry to make that employment full and fruitful. That is the thing we have been working on.

I am sure you will pardon me for this recital. I could dwell on that. I think I could even get eloquent on the time we have spent on this thing.

I don't mean that we have found the answers. I don't think you or any other group can find the answers. I don't think any one person or any group of persons could find all of the answers to the stupendous and multitudinous problems that are going to confront us.

We have had some of the best minds in the country to come here to advise with us, with the hope of trying to avert economic depression at the end of this war, such as we had at the end of the last one, and as we have had at the end of every war.

We are trying to do a job. What we may recommend may not meet with universal acclaim, but there have been no party lines.

I may say that of these seven reports that this committee has issued, everyone of them has been unanimous. The committee is made up of 10 Democrats and 8 Republicans. We have approached it from a patriotic point of view.

We are glad to have your contribution to this, but I just want to quarrel with you a little bit about that statement.

MR. GREEN. I don't know whether you are quarreling with me or not, because that is one of the reasons we are here this morning. We read the committee's report, and we acclaimed it. We want some action on the report. Let's find out how we can put that into concrete action. I can't go before Congress and speak to Congress.

When I made that statement—there is a little Scotch in me—I excluded present company. The wheels of our democracy move slowly and a little prodding once in a while doesn't do any harm.

MR. WOLVERTON. I want to say, Mr. Green, what the chairman was emphasizing, and very properly emphasizing, was the work that this committee has done over a period of months that has been so well received. It must be made clear, however, that this committee does

not have legislative power. We are a special committee to study these questions and make report of our findings in order that the legislative committees of the Congress could proceed with matters of legislation.

I don't wonder that the chairman would feel inclined to quarrel, but, as you see, when he quarrels it is always in the constructive way, and never with any ill feeling. But it does emphasize the fact that this committee has done work of which every member of this committee is proud.

I confess, Mr. Chairman, that I have never served on a committee in Congress that I have been more satisfied with the study, the conscientious effort, that has been made to arrive at some solution of these important questions.

I did think, however, that there is some justification in the criticism of Mr. Green, which he has made clear does not apply to this committee. There has been some delay or laxity in the carrying out of the solutions in the form of legislative action.

The CHAIRMAN. In that criticism, you and I join him.

Mr. WOLVERTON. Yes.

The CHAIRMAN. Very well.

Mr. GREEN. Mr. Chairman, the question of subsidies is important. The Maritime Commission estimates that the total operating-differential payments from 1937 to 1942 amounted to \$51,000,000, of which it is estimated \$30,000,000 will be recaptured. This means that about \$21,000,000 will have been spent in 5 years for subsidies, or about \$4,000,000 a year, after recapture.

Assuming that we have a yearly export trade of \$10,000,000,000, the highest possible under full employment, as compared with a yearly average export trade of \$4,000,000,000 during 1937 to 1942—figures from the United States Department of Commerce—and no recapture provisions, the subsidies would be about $2\frac{1}{2}$ times a year what they were from 1937 to 1942 before recapture—\$10,000,000 a year—or \$25,000,000 a year. Figuring the same percentage of recapture as existed from 1937 to 1942, our operating subsidies would not be more than \$16,333,000 a year.

Mr. John E. Otterson, chairman of the American Maritime Council, in an article in the *Journal of Commerce* of April 23, 1945, states that total operating-differential payments for a merchant fleet of 20,000,000 tons will be between \$20,000,000 a year and \$30,000,000 a year, and that total operating and construction subsidies would be between \$50,000,000 and \$70,000,000 a year, without deducting anything for possible recapture.

The CHAIRMAN. Thank you very much.

Mr. WELCH. I would like to say that the necessity of an adequate merchant marine has never been properly explained or sold to the American people. You are doing missionary work today, Mr. Green. The owners and operators of our ships have been very lax in that respect. They have not kept the American people sufficiently informed as to the necessity of an adequate American merchant marine.

The CHAIRMAN. Thank you again, Mr. Green, for your appearance.

Mr. GREEN. Thank you, sir.

The CHAIRMAN. The committee will stand adjourned until further call.

(Whereupon, at 12:40 p. m., the committee adjourned, to reconvene at the call of the Chair.)

POSTWAR ECONOMIC POLICY AND PLANNING

THURSDAY, NOVEMBER 8, 1945

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POSTWAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met, pursuant to notice, at 10:30 a. m., in room 1304, New House Office Building, Hon. William M. Colmer (chairman) presiding.

Present: Representatives Colmer (chairman), Walter, Voorhis, Worley, Reece, Hope, and Wolcott.

Also present: M. B. Folsom, staff director, and E. B. George, consultant.

The CHAIRMAN. The committee will please come to order.

It will be recalled that just before the recess we called a number of witnesses to testify on the question of removal of wartime controls. Among the witnesses that appeared at that time were Mr. Bowles, of the OPA, and Mr. Krug, of the War Production Board. We are glad to have this morning, in pursuit of that same subject, Mr. John W. Snyder, Director of the Office of War Mobilization and Reconversion. It might be well also to point out that this committee sponsored the legislation that set up the organization of which Mr. Snyder now is the directing head.

We are glad to have Mr. Snyder this morning and to have his statement. I would appreciate also—I am sure the committee would—if Mr. Snyder would indicate, if he has not done so in his prepared statement, just what, if anything, he thinks is necessary in the way of legislation to bring about the reconversion of our economy from a wartime to a peacetime economy, in order to bring to fruition our hopes of full employment in peacetime.

Mr. Snyder, we are glad to have you here this morning and glad you could get away from your arduous duties.

STATEMENT OF JOHN W. SNYDER, DIRECTOR OF WAR MOBILIZATION AND CONVERSION

Mr. SNYDER. Thank you, sir. I am always glad to come to this committee because you have certainly been most helpful to the office that I hold.

I have a prepared statement, Mr. Chairman, and with your permission I shall read from it.

The CHAIRMAN. Very well, sir, any way you like.

Mr. SNYDER. Mr. Chairman, I welcome this opportunity to appear before the Committee on Postwar Economic Planning and Policy. The

work you gentlemen accomplished by planning ahead while war still dominated our economy has been of immeasurable assistance to my office in speeding reconversion and expanding peacetime production.

The sudden capitulation of Japan put our reconversion plans to the severest kind of test. There had not been time in the 3 months following the fall of Germany to accomplish the full readjustment of our economy from a two-front to a one-front war basis. Munitions schedules had just begun to taper off, and our civilian economy was expanding only gradually when the last of our enemies sued for peace.

But our preparations for reconversion were well advanced. Immediately after Japan's surrender had been confirmed, the Government acted swiftly and decisively. The following steps were taken:

Unneeded war production was stopped without delay.

Unnecessary wartime controls were lifted.

Clearance of inventory and equipment from war plants was undertaken with all possible speed.

Demobilization of men no longer needed in the armed forces was speeded up.

Release of supplies and equipment to civilian industry was expedited.

Safeguards against inflation were reviewed and tightened where necessary.

The immediate shock to our economy was severe. Termination of prime contracts in August alone canceled commitments of some \$24,000,000,000. By September 30 there were some 103,000 prime contracts, involving \$37,000,000,000, which were awaiting settlement.

The soundness of the steps taken in advance of this avalanche of cancellations has been proved. No new major problems of policy and procedure in this field have arisen since VJ-day, and contract settlement is proceeding rapidly. In September almost 20,000 contracts were settled, twice the number in any previous month. We hope to settle the bulk of outstanding contracts before the end of this year, and present indications are that substantially all of the remainder will be out of the way by next July if contractors file their claims promptly.

The Government has been assisting contractors to clear their plants just as quickly as it can. In almost all cases termination inventories and Government-owned equipment are being removed from plants within the 60 days prescribed by the Contract Settlement Act. Of the 21,000 clearances completed during the third quarter, some 14,000 required only 40 days or less. A heavy volume of clearance requests is still ahead, but the machinery to cope with this peak when it comes is ready and functioning efficiently.

The thorough advance preparation that both business and Government made to switch from war to peacetime production has, without doubt, saved the Nation months of time and billions of dollars in its progress toward reconversion. Likewise, the amount of our unemployment during the transition period has been substantially curtailed.

Already reports from major industrial cities show that many of those laid off from war work have been, or soon will be, called back to peace time jobs. Industry has made remarkable progress on the physical side of reconversion. From now on, there is every indica-

tion that the rate of hiring will be substantially ahead of the rate of job displacement. The major challenge is to step up the rate of hiring still further so as to provide job opportunities for our servicemen who are returning to the labor force at a rate of more than 1,000,000 men a month.

The number of people at work will be steadily rising. But at the same time unemployment will be rising too, because our peacetime economy has not been able to expand as rapidly as our servicemen are being demobilized.

Our goal is a high level of production. It will give us the abundance of goods needed to smother threatened inflation. It will produce the jobs and good wages needed to sustain purchasing power and to counter deflation.

To encourage full production the various Government agencies are removing restrictive controls just as rapidly as they can safely do so and are strengthening those that are still needed. The pace of revocation has been so swift that at times serious questions as to the advisability of proceeding so rapidly have been raised. But it has been our policy when the issues are finely drawn to resolve these questions in favor of revocation if it appeared that production would be speeded up by such action.

Recent developments in the construction industry provide an excellent example of how our reconversion control and decontrol policy operates.

As you gentlemen know, there is an overwhelming need for all kinds of new construction in this country right now. Because of the shortage of buildings, especially of houses, and a heavy demand, created by such factors as the large increase in the number of families, the limitations on construction during the war years, and the large accumulation of assets in the hands of persons who desire better housing, inflationary pressures are exceedingly strong in this field. Stimulation of activity in construction, therefore, we believe is one of our chief responsibilities in the period just ahead.

During the years when materials were scarce, the War Production Board restricted construction with the order known as L-41. This was essentially a rationing device which channeled materials into construction of war plants, military establishments, homes for war workers in congested areas, and so forth.

After the defeat of Japan it was felt that L-41 would unduly delay expansion of the construction industry. So, on October 15 the order was revoked.

Mere revocation of that major control, however, did not solve the construction industry's problems. It was free to build houses wherever and of whatever type it felt were needed, but it could not get all the materials which were required. It was necessary, therefore, for other controls to continue functioning.

Mr. WALTER. May I interrupt, Mr. Snyder?

Mr. SNYDER. Yes, sir.

Mr. WALTER. I have heard that, as these materials become available, they are going into the construction of higher-cost houses, rather than to provide the much-needed housing in the lower-income class groups. Are those charges true?

Mr. SNYDER. Well, the materials really have not been freed long enough to prove that true or not, sir.

Mr. WALTER. Would it be possible to have the Government prevent that sort of thing from happening?

Mr. SNYDER. Not unless we put a ceiling price on houses that can be built—a prohibition against building houses above a certain price—or something of that sort, similar to the L-41 order. But that L-41 order is not a proper order to carry out a peacetime job. That was simply a rationing job, to channel short materials into wartime production, and to try to carry on under that order would have set up a tremendous number of requirements that would not have been proper in peacetime programs.

Mr. WALTER. Don't you feel that, with the cancellation of L-41, there should have been another order so as to prevent, for the moment at least, channeling of all building materials into high-cost construction?

Mr. SNYDER. Well, I don't know just what sort of an order could have been prepared. We have given a great deal of thought to it, and the principal answer to the problem is to try to get materials into production so there will be ample materials to do the job. We have had continual conferences with the construction industry and we have been led to have some confidence in the fact that if the materials get to flowing there will be ample for all types of construction. We are limited, too, by the difficulty of getting people back into construction activities. During the war, of course, many of the small contractors disappeared into other activities, and we are having to encourage them to go back to work. When we once get to moving in construction, the larger houses will not be in demand sufficiently so as to really curtail the amount of materials that go into small houses—when we have a free market for those materials.

Mr. WORLEY. On that same point, Mr. Snyder, the tax bill passed a week or so ago provides for the repeal of the excess profits tax on January 1, 1946. Consequently there seems to be a tendency on the part of a lot of people who are already in that bracket to keep their goods until next year before selling them. Have you noticed any such tendency?

Mr. SNYDER. We have had the WPB look into that, checking back to see if large inventories are building up, and their report looks very encouraging on that point: except in isolated cases, they have not found that to be the case at all.

Mr. WORLEY. None seem to be holding back?

Mr. SNYDER. What led to that belief was the fact that in building up national distribution manufacturers have had to get samples out first to their various agencies and then follow through with getting some stock on the shelves, before they could release it for sale, or else they would have had a distorted situation. Mr. Small, who is heading up that activity, made a very encouraging report on it at our conference last week. We have had him check, and he is continuing that regularly. If we run into any instances, we are endeavoring to clear them up.

Mr. WORLEY. So far as you know, that has not entered into reconversion in the automobile industry?

Mr. SNYDER. Not as far as I could find out.

Mr. REECE. In the following paragraph I notice that there was permitted the increase in the price of brick by \$2 per thousand, so

that wages could be raised to attract additional workers to the brick plants. How closely has a study been made in other industries to see whether the same thing could have been done advantageously?

Mr. SNYDER. Well, on those items, Mr. Congressman, where bottlenecks have been created, we have been pushing rapidly to move obstacles out of the way so that a free flow of materials into the various industries would be forthcoming. And in those cases where it meant a price adjustment in order to get the bottleneck cleared out, we have attempted to adjust the price so as to relieve that shortage. We have attempted to anticipate this problem of disagreement by calling in the representatives of management and labor and having their assurance that during this reconversion period things were going to move along. But the war being over, and folks being tired, possibly, and wanting a vacation after the pressure of the war, they are led into a position where they say, "Well, let's get this all settled right now instead of when the reconversion is moving along." And so the wage demands came along, and for those wage demands many of the industries have requested price adjustments. The President has announced his policy on this, and we have been trying to operate under that policy and hold the pricing in line to prevent any substantial rise in cost of living or an inflationary trend. We are constantly and daily reviewing those matters and studying them and trying to find paths and methods to follow to bring about composure of these disputes and arguments that are going on. We feel that if labor and management come out of this meeting with an agreement on some things, they will have demonstrated to themselves that there is a way of composing their differences and they will settle down to working out their disputes and we will get production under way.

Mr. REECE. Do you think there is grave danger of uncontrolled inflation as long as you have the authority to regulate prices and other factors?

Mr. SNYDER. Well, it would not if you just settle individual cases. But if you give a general price increase it might cause a very definite move toward an inflationary spiral. If you give a general increase and it reflects back into the cost of living again, then labor wants a further wage increase, and so on. But we have made provision so if there is a case where an industry can't give a wage increase that is needed to hold the cost-of-living wage rate up, we can make adjustments in prices. We are doing it regularly in individual cases, but not as a general price increase.

Mr. VOORHIS. I wonder if I could ask a question?

The CHAIRMAN. Mr. Voorhis.

Mr. VOORHIS. Mr. Snyder, how does the situation with regard to loss of time in labor disputes at present compare with the corresponding period after the First World War?

Mr. SNYDER. So far, reconversion has moved along exceptionally well. We do not have a tremendous number of people out on strike right now. It is the potential threat that disturbs people more than anything else. If the strikes happen that threaten to happen, unless we can get these ironed out, they will be the real danger. Everything has been moving along unusually well, as the Congressman said just a while ago, and there is a tremendous amount of goods flowing into the pipe lines and onto the shelves right now. You are finding things

being offered in your newspaper, advertisements of articles that are now being offered for sale that are new in the market since the war began, and if we can compare these threatened strike problems and disputes, we really have not lost a great deal of ground up to now; if that answers your question.

Mr. VOORHIS. I think it does.

Mr. SNYDER. I think the Department of Labor figures show that there are less than 200,000 men on strike right now, so that is a comparatively small figure.

The CHAIRMAN. All right, Mr. Snyder.

Mr. SNYDER. Brick plants for instance, could not attract the workers they needed to expand production because wage ceilings in that industry were too low. The Office of Price Administration permitted manufacturers to increase the price of brick by \$2 per thousand so that pay raises could be granted. Likewise, price increases were granted to increase production of cast-iron soil pipe.

At the same time the regional and district offices of the OPA throughout the country were at work preparing simple dollar-and-cent ceiling prices on building materials. Prices are based on local cost conditions, and will apply not only to building materials, but also to such manufactured articles as doors, windows, cabinets, septic tanks, and bathroom equipment. As rapidly as possible these ceiling prices will be posted publicly in building-material stores, lumber yards, and other points. Both buyers and sellers will thus be provided with definite knowledge of the ceiling prices.

The OPA will continue its rent control program as a further safeguard against inflationary dangers. This has been successful throughout the war in keeping rents within reason and should remain as long as there is danger of an unhealthy rise.

The Civilian Production Administration, which took the place of the War Production Board when that agency expired last week, will maintain control over inventories to prevent hoarding or preemptive buying of building materials which might delay construction by creating artificial shortages. Where real shortages exist, the CPA will break bottlenecks in cases of real emergency through the exercise of its priority powers.

I have cited the construction industry as an example, but the same policy of revoking controls when they are not needed and using those controls that are needed is being followed across the whole industrial horizon.

Industry for some time will continue to face serious shortages in certain critical areas where our war stock piles have become depleted and imports are still inadequate. This makes it imperative to retain the allocation and conservation controls which are authorized by title III of the Second War Powers Act. Equitable distribution of critically tight materials can be achieved only through allocation. It is the one way we can make sure that most important needs are met first when there is insufficient material to meet all needs.

Tin, natural rubber, and lead are examples of the materials whose distribution must be carefully controlled for the benefit of the whole economy while they are critically scarce. It would be most unwise, for instance, to permit tin to be diverted to nonessential items while there is not enough of it in the country to meet far more urgent demands.

Mr. WALTER. Now, Mr. Snyder, your entire discussion is based on the theory that there will not be a repeal of the War Powers Act. Don't you think that at this time it would be a great mistake if that act were repealed?

Mr. SNYDER. I definitely do, sir. It has to be extended. It expires the 31st of December. We are urging that it be extended for a year to help us through this reconversion transition. We feel definitely that the Second War Powers Act should be extended, and have requested the Congress to do so.

Mr. REECE. Have you considered whether it is necessary for all the provisions of the act to be extended, or whether certain provisions could be extended to accomplish your purposes?

Mr. SNYDER. That is a very pertinent question. The House Judiciary Committee is conducting hearings now, not only on the Second War Powers Act, but on all wartime statutes that expire on the cessation of hostilities or the termination of the war. I have promised them and am now carrying out that promise to have every agency using war powers give us an analysis of those powers: (1) to show those that can be dropped immediately; (2) to show those that need some extension, and the reasons why they should be extended for the reconversion period.

Mr. WALTER. Now, Mr. Snyder, I happen to be a member of the Judiciary Committee that is considering this legislation. Don't you feel that it would be more desirable to present a bill showing just exactly what controls should be continued, rather than to continue the War Powers Act. By doing that the Congress and the people will know exactly what controls it is intended to retain? The War Powers Act is an all-embracing thing, and many of those things that are controlled because of it should no longer come within the purview of any law.

Mr. SNYDER. We are going much beyond the Second War Powers Act, as you know, in this study. We are studying every war power. There are a great number of acts.

Mr. WALTER. Yet you are studying it only in this light, you are trying to advance an argument as to why the act, itself, should be continued. It seems to me that that is the wrong approach.

Mr. SNYDER. That is not our purpose.

Mr. WALTER. In other words, the thing to do is to let the act expire and then, in its place, suggest new legislation.

Mr. SNYDER. Well, we are only requesting extension of powers that are essential for the winding up of the war.

Mr. WALTER. You could probably get the substitute legislation enacted to take effect before the expiration of the War Powers Act.

Mr. SNYDER. Well, the end is exactly the same. We are hopeful of not losing some of the powers that are urgently needed. That is why we are making this definite study so as to provide you folks with the definite information.

Mr. WALTER. I disagree with you. The end is not the same. You say now this act should be continued because of the controls that must be exercised, but at the same time we are continuing controls which, in the judgment of some of us, ought not to continue beyond the war period.

Mr. SNYDER. We are perfectly willing for those that should be deleted to be deleted. We are not asking that the act as a whole

be renewed, but only those titles of it that are necessary for this reconversion period, particularly title III. We are trying to set out the reasons why we are asking those specific titles be continued. If you were to renew the Second War Powers Act, less certain titles, it is perfectly in accord with our plans. That is why I say our end is exactly the same. We just don't want to lose those powers that we feel are so necessary in the next few months of this reconversion program. We are not at cross-purposes at all. We want to do exactly the same thing. We are not asking for the renewal of the Second War Powers Act in toto. That is why we are trying to find out from everybody, and make them give good and sufficient reasons why they think certain ones should be continued. Then you can delete those items that are no longer required.

Mr. WALTER. Some of the members of my committee have not the confidence in all the members of the executive branch of our Government that we have in you, unfortunately.

Mr. SNYDER. We are trying to help you by making the various agencies put down in black and white why they think those titles are necessary. We can scrutinize those, and if we do not agree, we can either delete them or make the agency give a further and more definite explanation. That is exactly the purpose of our requiring the agencies to prove their case, not simply to say they think it is a good thing. They have to put down the reasons why it is necessary.

The CHAIRMAN. If I understand you and Mr. Walter correctly, you both have the same objective, and so far as you are concerned you would have no objection to the mechanics of the thing, just so you got the objective.

Mr. SNYDER. That is why I said our purpose in the end is the same. We both want to retain the things that are necessary, and neither of us has any interest in retaining those that are outmoded or undesirable.

Mr. WOLCOTT. Mr. Snyder, this morning before the Small Business Committee there was a large group of Congressmen who had been inspired to appear before that committee in protest against certain expected restrictions on the sale of automobiles. You are probably familiar with this ruling. It has to do with the contracts between the manufacturers and the dealers, likewise the contracts between the dealers and their salesmen. We all realize, of course, the authority that has been given under the Constitution to protect the obligation of contracts and there has always been a question as to whether the Congress could delegate that authority to an executive establishment to prepare the obligation contract by regulation. Under what authority does the Government claim to be able to prepare the obligation of a contract between a manufacturer and a dealer in automobiles, to the extent of regulating the commission which the salesman would get and the profit which the dealer would get?

Mr. SNYDER. That matter just came to my attention last night, Mr. Congressman, and I have not had a chance to go into it. That would be under the OPA regulation, under their price-control powers. As I understand, they are setting a price on the car that the manufacturer sells to the dealer, and then they are setting a final sale price to the consumer of the car.

Mr. WOLCOTT. That is perfectly all right. But what authority has the OPA to state that the contract between the manufacturer and the dealer, or between the dealer and the salesman, shall not involve a commission over a certain amount?

Mr. SNYDER. That is what I will look into. As I say, it just came to my attention that such a thing was contemplated, last night. I had a number of Congressmen and Senators call me last night.

Mr. WOLCOTT. I don't know that there is any constitutional authority for a department of the Government to prepare obligation contracts. There has always been some question whether the Constitution vests that power in Congress, and whether we can delegate that to the Government. I think it has got to be considered in the light of what these dealers fear might happen to them.

Mr. SNYDER. We are looking into that. I have been told that action was under consideration, and we are going to look into it today.

Mr. REECE. As I understand it, the OPA is basing its contemplated action on the theory that the cost of sales now to the dealers—there being a big demand and a scarcity of cars—is reduced, and therefore their commission to salesmen ought to be reduced. I question very seriously if those who are studying this matter and contemplating this action have had the experience in matters of this type to justify them in reaching such a conclusion. An organization can't discharge its salesmen because sales happen to be good, and then bring them back on when sales are not good. Many of those companies have had to keep some salesmen all during this period when there were no cars. Others will be coming back from the service. It is evident from the number of telegrams we are getting that it must be serious.

Mr. SNYDER. It all descended on us yesterday, Mr. Congressman.

Mr. REECE. If I had known this subject would come up, I think I would have brought a basketful over. I think that is something that you ought to give serious consideration to.

Mr. SNYDER. We already have it under study right now, sir.

The CHAIRMAN. If I may interject at this point, I think that is a very live question on the Hill today, Mr. Snyder, and I would just like to put my 2 bits' worth in, since we have got onto that subject. I can't understand how we can proceed on a basis of postwar economy when we are going to cut down the manufacturer, the dealer, and everybody that has anything to do with the production or handling of products and at the same time take a mandate from the Government that they all must raise wages. It may be sound economy but it just does not make good horse sense to me. I am just wondering if we can have stable postwar economy based upon a false premise like that. I don't see how it is going to work.

Mr. REECE. I hope nothing will be done until you have time to look into it, Mr. Snyder.

Mr. SNYDER. I will take time.

Mr. REECE. They were fearful it was going to happen before 6 o'clock last night.

The CHAIRMAN. It is a serious matter.

Mr. SNYDER. It will be given very careful attention.

Mr. WOLCOTT. Well, can we be assured, Mr. Snyder, that before any action is taken by OPA or anyone else who claims to have the authority to do it, that the matter will be considered by you?

Mr. SNYDER. I have assured you of that, sir.

Mr. WOLCOTT. And there is no imminent danger of that order being issued in the next few days?

Mr. SNYDER. I am going to look into it at once.

Mr. WOLCOTT. Mr. Chairman, there is one other thing.

On page 15 of your report you discuss inflationary prices in respect to construction costs in the real-estate field, which, of course, will be reflected in real estate. Are you in a position to tell us whether you contemplate any request for legislation to authorize the OPA to put a ceiling on real estate?

Mr. SNYDER. We are not contemplating requesting such a bill. I discussed that matter with Mr. Bowles and Mr. Blandford and Judge Collett, and we are in agreement that we will not ask for such legislation, sir, at this time.

The CHAIRMAN. All right, Mr. Snyder.

Mr. SNYDER. The priority powers which the Civilian Production Administration inherited from the WPB are another essential to orderly reconversion. They are being used sparingly now only to break bottlenecks which threaten to delay civilian production unduly or to retard reemployment. There have been numerous instances recently in which WPB's assistance in obtaining one or two items of machinery has been sufficient to put into operation a plant which otherwise would have been forced to stand idle for weeks, or even months.

Continued use of priorities will be necessary for some months to insure an adequate flow of textiles into lower-priced garments.

The military will continue to need priorities to make sure that there is no interruption in the scheduled production of the supplies our servicemen still overseas will need.

It is not possible today for anyone to predict accurately how, or where, or when all the shortages and bottlenecks that may crop up from time to time during the transition period will occur. The Government must be prepared, as it is now, to step in when these obstacles threaten to slow down reconversion and thereby delay the return of unemployed men and women to their postwar jobs.

Earlier, I mentioned how inventory controls are being used in the construction industry to prevent artificial shortages. These controls reach out wherever demand is running ahead of supply. They are one of our major defenses against runaway inflation. Without them there might very easily be a wave of speculative buying and inventory hoarding such as we had after the last war. You gentlemen are familiar with the story of what happened then. Unwise buying and inventory hoarding were among the factors that set off the inflationary boom that ended in the crash of 1920. We learned a lesson then, and we must not repeat those tragic errors again.

Mr. VOORHIS. Do you think we are avoiding them pretty effectively so far, Mr. Snyder?

Mr. SNYDER. When you compare our prices today with what they were in 1919 and 1920, there is no question but what we have done an effective job until now.

Mr. WORLEY. How about the volume of money?

Mr. SNYDER. Well, of course, it is tremendously greater. I would have to get you that figure if you would like to know exactly what the amount of currency in circulation was at the same period after the last war.

Mr. WORLEY. I think such information would be helpful.

Mr. SNYDER. Well, of course, with all that money in circulation today as compared with what was in circulation before, and considering the price levels of today, it will accentuate the fact that we have done a pretty good job in holding things down.

Mr. WORLEY. If you could insert that at this point, we would appreciate it.

Mr. WALTER. I think it might be well to include both price and circulation.

Mr. SNYDER. Both price and circulation?

Mr. WALTER. Yes.

Changes in money and prices in 2 wars

| | 1914 | 1919 | Percent increase | 1941 | August 1945 | Percent increase |
|--|--------|--------|---------------------|--------|----------------|---------------------|
| Volume of money (millions of dollars): | | | | | | |
| Money in circulation | 3,032 | 5,091 | 68 | 9,699 | 27,656 | 185 |
| Demand deposits | 10,082 | 17,624 | 75 | 38,992 | 74,300 | 91 |
| Wholesale prices (1926=100) | 68.1 | 138.6 | 104 | 87.3 | 105.7 | 21 |
| Cost of living (1935-39=100) | 71.8 | 124.5 | 73 | 105.2 | 129.2 | 23 |

While money in circulation increased by 68 percent, and demand deposits by 75 percent, between 1914 and 1919, wholesale prices rose by 104 percent and cost of living by 73 percent. (Before mid-1920, as inflationary forces exerted their pressure, wholesale prices and the cost of living rose by an additional 20 percent when the collapse occurred. Between 1941 and August 1945, though much greater increases occurred in money in circulation and in demand deposits, the rise in prices was less than one-third as great as that from 1914 to 1919.

Mr. WOLCOTT. Here is a subject which is rather closely affiliated with that question. There are some who think we are developing a Government policy with respect to prices which will result in the maintenance of high prices—or we might put it this way—that will cheapen the dollar, as of necessity with respect to carrying our national debt. I think if there is anything like that being discussed, Congress should, of course, consider it, because the Congress has the responsibility of legislating these policies. That is too important a matter to be left to the discretion of someone who might issue an Executive order or a regulation with respect to it. We are given the authority and the responsibility of coining money and regulating the value of it.

Now, is there anything that you know of that contemplates any action by the Executive in respect to the value of the currency, either by direct or indirect action?

Mr. SNYDER. I have not heard it discussed, sir.

The CHAIRMAN. All right, Mr. Snyder.

Mr. SNYDER. The Civilian Production Administration requires that businessmen restrict their inventories of scarce goods to the amounts they actually need to meet current demands. This is a sound rule of business. It permits the widest possible distribution of the goods that are scarcest. As quickly as production catches up with demand, or even approaches it CPA will relax these controls, or suspend them. But it is essential that authority be retained to curb any speculative hoarding which might create artificial shortages.

Mr. REECE. Mr. Chairman, I realize we are anxious to get through and I do not want to take too much time. I am wondering if you have looked into the question of the surpluses of consumer goods which

various military installations, and other installations closely allied with the military, had on hand at the end of the war. In some instances of which I know, they had very substantial stocks of consumer goods of different types. There seems to be a disposition to find other governmental installations to take them over instead of making them generally available. That is all right, but there is a tendency on the part of some of those other installations to take more than their immediate needs require in order to be in a good position over a long period of time.

Mr. SNYDER. Mr. Congressman, I have a group that are spending every day in the week on that very subject. We are constantly reviewing the inventories of the Army and the Navy. We are trying to break loose all those surpluses as rapidly as possible.

Mr. REECE. I think there is quite a wide field there.

Mr. SNYDER. It is a tremendous job; yes, sir, when you recognize the size of our Army installations and the storage spaces. My staff is a very small one, as you know, and we have used other agencies of the Government as much as possible. The law that created our Office said that we should use the staffs of the other agencies, and we are doing that. I have had, compared with my other sections, a rather large staff digging into these problems.

Mr. REECE. I am not sure but what you will find in some instances agencies have bought beyond their requirements, and when the war ended they were left with embarrassingly large quantities of some of these goods on hand. If they can find other installations to take those commodities off their hands before it becomes generally known, it relieves them of embarrassment, and for that reason I think it is easier for another Government office to get those surpluses and to find them in large quantities.

Mr. SNYDER. As I say, we are giving that very careful attention, Mr. Congressman. We get suggestions daily, and we are trying to follow them up to get the surpluses declared.

Before it expired, the WPB had revoked, or suspended, all but 55 of the some 650 controls which it exercised over materials and supplies at its peak. The CPA is following the same policy as its predecessor—it has assured industry that no control will be kept in force one day longer than is absolutely necessary.

The Office of Price Administration has made rapid progress in divesting itself of its rationing programs. At the peak there were 13 such programs, but now only 3 remain—meats, fats and oils, sugar, and automobile tires. Like the other 10, these programs will be dropped just as soon as increased supplies permit.

The reconstruction needs of foreign countries, particularly the liberated areas, are large. The dangers of widespread starvation, disease, and continuing unrest abroad impose an obligation upon this Nation to send some of its resources to those countries. As a matter of fact, those are pledges that this country has made. This can only be accomplished through the exercise of CPA's allocation and priority controls.

As you gentlemen are fully aware, the emergency rationing and allocation powers upon which the reconversion program is depending so heavily, are derived from title III of the Second War Powers Act. This statute will automatically expire on December 31, unless Congress acts in the meantime to extend it.

At hearings before a subcommittee of the House Judiciary Committee recently I urged that the Second War Powers Act be extended for another year. I would like to repeat that recommendation here. I feel very strongly that the authority granted under provisions of title III of this act are essential for orderly reconversion while we still have serious economic dislocations arising out of our war effort. Without these provisions, the Government will not be equipped to meet the crises and economic problems which are arising in this temporary period of major readjustment.

However, there are some emergency statutes on the books which have outlived their usefulness. I have asked the various Government agencies exercising powers which are limited to the duration of hostilities, the end of the war, or some similar period, to examine those statutes in detail and report to me which of them may be dispensed with now and which should be retained until some future date. In this latter category, I am asking that the earliest possible termination date be suggested for the emergency powers which should continue. I shall, of course, review these reports carefully and shall do my best to see to it that only those powers are retained which can clearly be proved essential.

It is of the utmost importance, I believe, that each of the emergency statutes should receive individual study and the implications of its revocation be carefully weighed before final action toward revocation is taken. As President Truman has pointed out, a program of blanket revocation of wartime controls, such as would result from an untimely proclamation of the cessation of hostilities, would be unwise and unfortunate. Very shortly, I shall make recommendations as to the specific emergency powers which can, in our judgment, be removed at this time.

I look forward to a time in the not so distant future when reconversion of our economy will be sufficiently advanced to permit revocation of all the emergency powers which have been granted to the Government to prosecute the war. Many of them are warranted only by the extreme emergencies we have had to face. In removing these controls, however, we must be fully aware of the emergencies which their very revocation might create.

The long-range study of the postwar economic problems facing our country which this committee has undertaken will prove of great assistance, I am confident, in evaluating the need for dropping additional controls and the need for continuing some of the others beyond their expiration date in 1946.

The CHAIRMAN. Are there any questions from any of the gentlemen of the committee?

Mr. WALTER. Do you have any idea, Mr. Snyder, how long it will be before we can drop all controls?

Mr. SNYDER. I think that by the end of next summer we will have the biggest majority of them gone. There may be some that will have to go a little longer—construction, for instance. We are going to have a tremendous amount of construction, houses particularly, and a great deal of industrial and commercial construction, and until the supply somewhat approaches the demand, we may have to try to hold on to some of those powers a little longer. But, by and large, I think that by next summer a great many of them will be out of the

way. I think we have demonstrated the desire of our office to get rid of them as rapidly as possible.

Mr. WALTER. Mr. Snyder, on page 4 of your statement, you said, for instance, that brick plants could not attract the workers they needed to expand production because wage ceilings in that industry were too low. Now, did they take into consideration the wages paid in industries in which there was a decreased demand for workers?

Mr. SNYDER. I do not get your question.

Mr. WALTER. When it was determined that the wages in brick plants were too low, was consideration given to the fact that there would be unemployment in other industries, or was an attempt made to keep the wages up in brick plants to what the workers had been receiving in war work?

Mr. SNYDER. Well, in brick plants wages have always been rather low. It is an unattractive type of labor or work, and something had to be done there. Laborers just were not going to work in the brick plants.

Mr. WALTER. Of course, during the war many people who engaged in that type of work were encouraged to go to the shipyards and into war work.

Mr. SNYDER. That is true.

Mr. WALTER. Now, normally they would have gone back to what they had been doing before, at the same wages.

Mr. SNYDER. They would not do it, sir.

Mr. WALTER. They either would not work at all or they would find work in some other type of industry. In other words, when the determination that the wages were too low was made with the idea of raising wages in low-paid industry—

Mr. SNYDER. The idea was definitely to try to get production where there was extreme shortage.

Mr. WALTER. Well, unless the wages were increased, the people would not leave the shipyards and war industries and work. They would just do nothing.

Mr. SNYDER. We just could not get them back in there. We put on recruitment programs and tried to get labor through the USES, and they just would not go.

Mr. WALTER. All right. Now, suppose, for example, that slaters, men engaged in the manufacture of roofing slate, who have been employed during the war in the manufacture of munitions, went back to the slate quarries and refused to work because the wages were not increased. Don't you feel that, under those circumstances, the manufacturer would be justified or permitted to raise prices in order to pay those former slaters what they had been getting in war work?

Mr. SNYDER. If that became a definite bottleneck to getting construction moving, we would have to give it consideration.

Mr. WALTER. Well, suppose he could not operate his plant and pay increased wages?

Mr. SNYDER. Well, the President has said that the Government must not ask for wage increases where it would put the manufacturer in the red. If it is going to do that, then he is entitled to consideration for a price raise.

Does that answer your question?

Mr. WALTER. Is that what he said, or did he say, raise the wages and see whether they could keep their heads above water for 6 months?

Mr. SNYDER. No; there are special hardship cases that are being considered every day.

Mr. WALTER. Who would grant relief to the manufacturers who could not keep their businesses going?

Mr. SNYDER. Where there is a question of raising wages to prevent maladjustments or inequalities which would interfere with reconversion and the employer cannot do it without a price raise, he applies for a price raise and that is finally settled by the Stabilization Administrator.

The CHAIRMAN. Is there anything further?

Mr. WOLCOTT. Mr. Chairman, in that respect——

Mr. SNYDER. Mr. Congressman, were you under the impression that there was an attempt to raise the wages to as high a point as the wages were in the war plants?

Mr. WALTER. Yes.

Mr. SNYDER. Oh, no. They were only raised sufficiently to get men into this type of work, just a little over the previous wage, nothing compared with the war plants.

Mr. WALTER. When I mentioned slate, that was hypothetical.

Mr. WOLCOTT. Mr. Chairman, the OPA put a floor under wages by providing that no wage or salary could be put less than the highest wage or salary paid between January 1 and September 15, 1942. As I understand it, the Congress has never put a ceiling on wages or salaries, so that there is no legislative restriction against the increase of salaries and wages there.

Mr. SNYDER. No, sir; no specific ceiling. But the Stabilization Act requires that wage increases be kept within general stabilization limits.

Mr. WOLCOTT. Is there any legislation which is necessary to help you or the Administration adjust the wages and salaries?

Mr. SNYDER. Well, I would not want to make a statement on that until we see how these present negotiations work out, to see whether we can get together on a basis of getting production started, and then, if we can, I think that will take care of itself.

Mr. WOLCOTT. Unless you want to set a wage lower than the highest wage paid between January 1 and September 15, 1942, there is no restriction that will require an adjustment?

Mr. SNYDER. I do not know, sir.

Mr. VOORHIS. I want to ask Mr. Snyder, going back to Mr. Walter's question, about the desperate need of housing for the middle-class and low-class people, whether you suggest any specific step be taken. You mentioned the possibility of fixing a ceiling on the cost at which housing could be sold. Is that in contemplation as a possible move?

Mr. SNYDER. No; I said a while ago that we were not contemplating such a move.

Mr. VOORHIS. Do you support Mr. Bowles' proposal for additional cost control on housing?

Mr. SNYDER. Mr. Bowles and I are in agreement that we are not going to ask for such legislation now. We are going to work out, under our present powers, to stimulate and encourage construction.

Mr. WALTER. Yes; but don't you see, if I may be permitted to interrupt at this point, what is going to happen? Builders are going to build higher-priced houses because they are going to get a greater

profit, and the very people that ought to be assisted are the last ones that are going to get any relief.

Mr. SNYDER. That is under constant study. During the winter months there is a lull in the construction program. We are trying to get this whole program reviewed in a very careful manner, sir, and if it does develop—as I have stated on two or three occasions—if it does develop, we are going to have to ask for some further powers, and we will certainly do it.

Mr. WALTER. I suggest that you look at building permits in the Philadelphia area. They are all for houses in the \$10,000 to \$20,000 categories. There is considerable demand for that type of house, and obviously the profits on that type of construction are greater than on a house that sells in the \$5,000 to \$10,000 class. You have a look at those building permits.

Mr. SNYDER. Do you think that Congress would consider a bill that would put a limitation on a price that a house could cost? Say that you could not build houses over a certain cost? That is a question that comes up. It is one thing for us to be considering legislation, and another is we have to decide whether, if we bring it up here, you folks will give it real consideration. You are awfully busy people and we do not want to pile up a lot of things on your desks unless we feel that there is some feeling of reception up here for it. That has been very seriously considered across the board and has been debated and argued back and forth, and if we arrive at something that we think is feasible and that you folks would support us in, then we might consider doing it.

Mr. WALTER. Well, with your present controls over materials, would it not be possible to see that those materials are channeled into certain types of construction?

Mr. SNYDER. We can do the textiles that way and we can possibly do the same thing in other areas if that trend is positive there. I am going to check on this present idea that you have just advanced about the building permits, and we will take a cross section across the country and see just how that is working out.

(Discussion off the record.)

The CHAIRMAN. This committee was set up primarily to study the problems of postwar reconversion, with the idea of securing full employment in that era, a continuation of the American system of free enterprise, and a stable economy based upon that. I think it is the duty of this committee and the duty of the Congress to see that nothing is done to prevent all of the hopes and aspirations and efforts of the Congress and the administration from bringing about that desired goal. I think the people of this country expect that and they have a right to obtain it.

If there are no further questions of Mr. Snyder, I would like to express the appreciation of the committee for your appearance here this morning. Mr. Snyder, and for the valuable information that you have given us. Thank you very much.

Mr. SNYDER. Thank you very much, gentlemen.

(Whereupon, at 11:45 a. m., an adjournment was taken until the following day, Friday, November 9, 1945, at 10:30 a. m.)

POSTWAR ECONOMIC POLICY AND PLANNING

FRIDAY, NOVEMBER 9, 1945

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POSTWAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met, pursuant to adjournment, at 10:30 a. m., in room 1304 New House Office Building, Hon. William M. Colmer (chairman) presiding.

Present: Representatives Colmer (chairman), Cooper, Walter, Zimmerman, Worley, Welch, and LeFevre.

Also present: E. B. George, consultant.

The CHAIRMAN. The committee will come to order.

In furtherance of the hearing on the question of removal of wartime controls, we are very pleased this morning to have with us Mr. Robert R. Wason, president of Manning, Maxwell & Moore, Inc. He is appearing as chairman of the reconversion council of the National Association of Manufacturers.

Mr. Wason, we will be glad to hear from you, sir. And I believe you have a prepared statement.

Mr. WASON. Yes, sir.

The CHAIRMAN. You may read it. And if you prefer, we will permit you to make your statement first and then ask you questions.

Mr. WASON. I will be grateful to you for that privilege.

The CHAIRMAN. Very well, sir. Without objection, that order of procedure will be followed.

STATEMENT OF ROBERT R. WASON, CHAIRMAN, RECONVERSION COUNCIL OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. WASON. Mr. Chairman, we are grateful to you for hearing us.

My name is Robert R. Wason. I am president of Manning, Maxwell & Moore, Inc. For 50 years my company has manufactured equipment for heavy industry.

I appear as chairman of the reconversion council of the National Association of Manufacturers. The reconversion council consists of the chairmen and vice chairmen of 29 separate committees dealing with 29 separate phases of reconversion.

When the war with Japan neared its end, this council was formed to give unity to the judgments of the different committees which had worked for 3 years. The result is a single program intended to express the collective opinion of 14,000 manufacturers employing four out of five of all the working force in American manufacturing industry.

The companies in the National Association of Manufacturers are owned by about 3,000,000 shareholders, not including the equities and preferred positions of insurance companies, savings banks, and endowed private institutions.

By board resolution of the National Association of Manufacturers directors, I am authorized to state its concern about obstructions to reconversion imposed by Government action and inaction.

The concern of the manufacturers whom I represent is not theoretical but highly practical. They are on the receiving end of every governmental intervention in the economic scene, both long range and emergency. For that reason, they are qualified by direct and practical experience to say whether any particular Government intervention works for the public good, as it was proposed to do, or whether it defeats its own purpose when it comes into application.

Eighteen months ago the Congress by resolution chartered your committee, Mr. Chairman, to assist in the restoration of balance to the Nation's postwar economy—between the areas of the country expanded during the war, between agriculture and industry, between small and large business, between available goods and available purchasing power. Now I appear to present the consolidated result of 3 years of thinking by 2,000 committeemen working on the many reconversion problems. Their findings are addressed to your committee. They are available to you in total upon request.

Inasmuch as your committee has allowed 2 hours in which to hear the conclusions of our committees, my comments will be in sentences instead of pages. With your permission, I will be followed by Mr. John Airey, president of King-Seeley Corp., Ann Arbor, Mich., who will talk on governmental controls, and Mr. Clarence Randall, vice president of Inland Steel Co., Chicago, Ill., who will talk on labor relations. Because of the brief time allowed us, the chairmen of committees on other reconversion subjects have not been asked to join us to appear here.

Roughly, as you know, the economy divides into four quarters. One quarter is manufacturing, one quarter is distribution, including transportation, one quarter is agriculture, the remaining quarter is the service occupations. The total working force of all creates and consumes one another's products and services, builds one another's tools, creates one another's employment. In total, it is the economic system. It is the public.

The interests of industry are indivisible from the interests of distribution and transportation, from agriculture and the service occupations. Except all quadrants of the economy prosper, none can long prosper separately.

America has paid to learn that you cannot legislate prosperity any more than you can legislate happiness or good health. Legislation can only be supported by more legislation.

Now, gentlemen, allow me to read and file with you the formal recommendations of the reconversion council of the National Association of Manufacturers:

RECOMMENDATIONS OF RECONVERSION COUNCIL ADOPTED BY THE NAM
BOARD OF DIRECTORS

The reconversion council of the National Association of Manufacturers believes the problem of reconversion is the recovery of freedom. The way in

which reconversion problems are solved may determine the future of American life.

The elements of prosperity are now present in the Nation.

If they can be released to pursue their natural course, the reconversion council of the National Association of Manufacturers is convinced that this country can have a long period of high-level production and employment.

The council is equally sure that the prolongation of wartime regulations into peacetime can only impede the American people doing business with one another. Prosperity in the past has come to this country through the free exchange of goods and services. To persist in trying to produce for peace under wartime regulations, is to choke the forces of plenty and to forfeit the fruits of the fight we have won for freedom militarily.

To reconvert is to rebuild and restore the production and distribution of peacetime goods. Whatever speeds reconversion is good; whatever impedes it is bad, whether the obstruction be by Government, by labor, or by management.

Only mounting production of goods and services can supply workmen with satisfactory wages, industry with sufficient employment, and the Government with the necessary revenues to meet postwar expenses.

We can have as much unemployment as the Government is willing to cause through restrictions, and as the people are willing to pay for in taxes and deficit financing, which is a deferred tax. Such Government payment for unemployment is a charge on the earnings of workers as well as on the savings of the thrifty.

The council commends to the conscience of all citizens this simple question. Is the war over or is it not? If it is over, have we the courage to act on that faith? When will we recognize that the only possible way to resume the prosperity of peacetime and the practice of individual freedom in America, is to go ahead and resume them?

There can be no prospect of productive employment unless there is prospect of wages for employers in supplying the tools of production and organizing manpower and machinery to produce what customers want at prices they are willing to pay.

The presence of profit for employers is the workers' only guaranty of employment and wages. Profit is far more important to workers than to owners, however falsely they are now persuaded to the contrary.

Payments to corporate stockholders have been grossly exaggerated. The wages and salary payments to workers in America have since the turn of the century been 12 times as large as the dividend payments to corporate stockholders.

The American system is based on freedom of contract between employer and employee, and on freedom from Government control over wages, prices, and output. American workmen are expected to get as much as they can in wages, and, for a century and a half, they have recognized that their welfare was based on increased production. Employers were expected to make as much profit as possible, subject to the rules of fair competition. Government was principally concerned in assuring free and fair competition—among workmen for jobs, and among employers for markets.

Under this American system, our country far surpassed all others in production per man-hour in peacetime. In war, the American system of free enterprise produced war materials that saved the world, whether in the hands of the Russians, the British, the Chinese, or our own forces.

The reconversion council proposes that the American system of free employment, free production, and free markets be reestablished and facilitated in America. Only the free-enterprise system of America is being asked to heal the war wounds of allies and enemies alike.

So that the Nation may convert to freedom, the National Association of Manufacturers reconversion council recommends the following program:

1. GOVERNMENT CONTROLS

We advocate the continued and accelerated removal of all wartime controls. They serve only as a deterrent to free, full, competitive production in peace. WPB has shown commendable speed and efficiency in the realistic liquidation of many wartime controls and already the beneficial results are apparent in the economy.

All OPA price controls should be removed no later than February 15, 1946, which is 6 months after the surrender of Japan (August 14, 1945).

Wage and salary stabilization by government should be eliminated. The determination of compensation in each plant should be promptly restored to management and the employees.

2. INDUSTRIAL RELATIONS

Management accepts collective bargaining as the law of the land and the basis for industrial-labor relations.

We advocate the reestablishment of free collective bargaining between employers and employees.

The representation of labor should be of labor's own choosing, free from compulsion or coercion at all times.

Compulsory payments by workers as a condition of securing or retaining employment should be eliminated as impairing the freedom to work.

Agreements should be faithfully kept by all parties, and suitable penalties provided for those who break them.

Irresponsibility and bad faith provoke dissension, interfere with production and operate to the detriment of the public, of the responsible elements in labor and of those who have provided the factories and tools with which men work.

It is to be hoped the current conference between labor and management may make some important contribution to the solution of this industrial-labor conflict which is now so seriously impeding reconversion.

3. EMPLOYMENT OF VETERANS

Industry is eager to offer job opportunities to veterans, and asks the Congress to enact legislation promptly to clarify their rights.

4. INDUSTRIAL FINANCING

Reconstruction and reconversion call for vast sums of industrial capital. We are opposed to Government financing of industry and we advocate reliance on private capital for investment and industrial expansion.

We believe that new capital, under private enterprise, should come from the retained earnings of industry and from the savings of individuals.

Government should withdraw from the financing of peacetime industry. Such financing tends to Government domination and determination of the whole economy.

5. DISPOSAL OF GOVERNMENT-OWNED PLANTS AND MATERIALS

We recommend the elimination of the system of priorities and preferences contained in the Surplus Property Act so that it will operate to the benefit of the entire economy rather than to special groups.

Government-owned plants and equipment should promptly be sold or leased to the highest bidder with the exception of those plants required for national defense.

The delays and uncertainties surrounding present procedures for the disposal of plants are not such as to encourage their prompt acquisition and operation by private industry.

We further believe that the Government should not operate any of these plants or facilities in competition with private industry.

6. INFORMATION ON RAW MATERIALS

We urge the disclosure to the public of all available information regarding the availability of raw materials, particularly the extent of present stock piles, Government commitments and future policy.

7. CONTRACT SETTLEMENT

We advocate the prompt filing of contract termination claims by industry and the prompt processing by the Government so as to expedite their settlement and speed reconversion and full peacetime production. In this connection we commend the public authorities for the efficient manner in which contract settlement has thus far been handled.

S. SUBSIDIES

We favor the discontinuance of any wartime subsidies still in existence, not later than the date of the termination of price control.

No. 9 is the tax program for 1946 which has now become history. The law that was passed by the Congress assists and expedites re-conversion. I will not read it for those reasons.

10. FOREIGN LOANS AND FOREIGN TRADE

Assistance by the United States in the rehabilitation of the world economy is a proper factor in reconversion policy. But a sharp distinction should be drawn between gifts and loans. There is real danger that various agencies of the Federal Government may make advances on foreign accounts under the guise of loans, whereas these loans will be uncollectible and thus in reality become gifts.

Wide extension of uncollectible Federal credit would create unhealthy and temporary economic activity in the United States. It would accentuate inflationary tendencies in domestic commodity prices and it would create international economic confusion when such credits are withdrawn. Hence, we believe that gifts should be labeled as such.

We further believe that loans should not be undertaken by the Federal Government or its agencies but should be left to individuals and credit institutions which may be willing to assume the attendant risks.

And finally, we believe that the Government should promptly withdraw from acting as agent in the importation or exportation of merchandise from abroad. Reconversion will be delayed and disturbed until foreign trade, foreign finance, and foreign shipping are again entrusted to individual enterprises.

Government's peacetime contribution to foreign trade should be that of protecting American enterprise, particularly against discrimination and confiscation and against unfairness in foreign trade practices, such as exchange restrictions, blocked currencies, dumping, unified purchasing and the like.

THE RECONVERSION COUNCIL OF NAM

As VJ-day approached, the National Association of Manufacturers appointed a reconversion council to coordinate and consolidate the thinking of its various standing committees in the postwar field. The members of this council—in most cases—chairman and vice chairman in charge of the interested committees are as follows:

NAM COMMITTEE AFFILIATION

Chairman:

Robert R. Wason, president, Manning, Maxwell & Moore, Inc., New York, N. Y.; advisory committee on economic policy.

Vice chairman:

Enders M. Voorhees, chairman, finance, United States Steel Corp., New York, N. Y.; industrial financing.

Associates:

John Airey, president, King-Seeley Corp., Ann Arbor, Mich.; war control termination.

M. M. Anderson, vice president, Aluminum Co. of America, Pittsburgh, Pa.; labor-management.

Melvin H. Baker, president, National Gypsum Co., Buffalo, N. Y.; advisory committee on economic policy.

Thomas J. Bannan, president, Western Gear Works, Seattle, Wash.; disposal of Government-owned plants and materials.

Howard E. Blood, president, Norge Division, Borg-Warner Corp., Detroit, Mich.; distribution.

William H. Brown, treasurer, American Viscose Corp., Wilmington, Del.; taxation.

Earl Bunting, president, O'Sullivan Rubber Co., Inc., Winchester, Va.; distribution.

Associates—Continued

- Clayton R. Burt, chairman of board, Pratt & Whitney Division, Niles-Bement-Pond Co., West Hartford, Conn.; disposal of Government-owned plants and materials.
- Ward M. Canaday, chairman, Willys-Overland Motors, Inc., Toledo, Ohio; war control termination.
- Clarence L. Collens, chairman, Reliance Electric & Engineering Co., Cleveland, Ohio; contract termination.
- Charles S. Davis, president, Borg-Warner Corp., Chicago, Ill.; inflation control.
- H. L. Derby, president, American Cyanamid & Chemical Corp., New York, N. Y., veteran reemployment.
- Lewis A. Dibble, president, Eastern Malleable Iron Co., Naugatuck, Conn.; Government spending.
- Roger E. Gay, president, Bristol Brass Corp., Bristol, Conn.; contract termination.
- H. E. Humphreys, Jr., chairman, finance committee, U. S. Rubber Co., New York, N. Y.; taxation.
- B. E. Hutchinson, chairman, finance committee, Chrysler Corp., Detroit, Mich.; war production.
- Whipple Jacobs, president, Belden Manufacturing Co., Chicago, Ill.; inflation control.
- Nathaniel Leverone, chairman, Automatic Canteen Co. of America, Chicago, Ill.; civilian production resumption.
- R. S. Livingstone, vice president, Thompson Products, Inc., Cleveland, Ohio; industrial relations program.
- Hanford Main, president, Loose-Wiles Biscuit Co., Long Island City, N. Y.; industrial relations program.
- William H. Mooney, president, American Oak Leather Co., Cincinnati, Ohio; tax administration.
- Charles E. Moore, president, Joshua Hendy Iron Works, San Francisco, Calif.; world trade policy.
- Clarence B. Randall, vice president, Inland Steel Co., Chicago, Ill.; labor legislation.
- Herbert H. Schell, president, Sidney Blumenthal & Co., Inc., New York, N. Y.; world trade policy.
- Richard J. Simmons, vice president, Birminghan Electric Co., Chicago, Ill.; civilian-production resumption.

Advisers:

- W. W. Cumberland, partner, Ladenburg, Thalmann & Co., New York, N. Y.; advisory committee on economic policy.
- Bradford Bixby Smith, economist, United States Steel Corp., New York, N. Y.; advisory committee on economic policy.

Their task was completed with the drafting of these attached recommendations which were approved by the board of directors of the NAM.

Mr. WASON. That concludes our formal recommendations.

May I now add that, up to date, the reconversion progress industry has made is greater than all Washington predictions. The unemployed totals are lower than Government forecasts. The flow of some goods into consumers' hands is months ahead of Government predictions.

But the reconversion prospect is not good. It can be assisted by the prompt recommendations of your committee.

Many consumer's items are not being produced. They cannot be produced under present OPA ceilings.

Many consumer items are choked in the distribution channels. They cannot be forced through except OPA restrictions be relaxed or removed.

Important shortages of labor exist in the presence of released labor supply. Thousands of employees who worked the war years without

important interruption are vacationing on unemployment-insurance income. No one can blame them, nor does industry, for accepting these moneys which the law provides.

Labor demands that war overtime rates be continued in peacetime wages. Strikes take place in various parts of the Nation. Governmental agencies assist rather than retard the agitation.

Conversion progress, therefore, proceeds at the slow pace required by OPA controls and labor agitation.

Mr. John Airey, president of the King-Seeley Co., Ann Arbor, Mich., will discuss war control termination recommendations of our reconversion council in detail.

Mr. Airey.

The CHAIRMAN. Before you do, I think in the interest of orderly procedure it might be well if we exercised our prerogatives now, to ask you some questions. Don't you think that would be better?

Mr. WASON. It is entirely agreeable.

The CHAIRMAN. Mr. Cooper?

Mr. COOPER. No questions.

The CHAIRMAN. Mr. Walter.

Mr. WALTER. Yes.

I was very much interested in your statement concerning Government controls. These controls, of course, are apparent to everyone. Don't you think that if all controls are removed immediately, we will find our selves in an inflationary spiral?

Mr. WASON. Mr. Walter, I would be happy to attempt an answer to that question. Mr. Airey will develop the subject of Government controls in some detail. The answer that I would like to offer, if I may, is this: We have debated whether the control on rents should be continued. It is our feeling that if any controls are to be continued that should be the only one, but we are in a situation where the OPA prevents production, and only production can solve our problems. The specific instances of that are well known throughout the 14,000 members of our organization, and it would be senseless for me to attempt to take up specific instances. Recently Mr. Bowles, the head of that bureau, made the statement, as I understand it, that industry was not making requests for price increases. But industry has learned over a period of many months of dealing with that particular bureau that the run-around they get is so circuitous and so misleading and so misinformative in the various levels of the OPA organization that it is senseless to devote the time of top executives trying to get increases that finally are impossible.

Mr. WALTER. What manufacturers you know of suffered losses because of their inability to get a price increase.

Mr. WASON. I would say that many products that should have come onto the market have not come onto the market because people in industry are not willing to deal with the OPA. I am well aware that new prices can be established on new products, but in the instances where the new products are modifications or improvements or other modernization of old products they feel that they would be better off to wait 6 months, 1 year, or 2 years, than to attempt to go through the machinery of the OPA.

Mr. WALTER. Then, as I understand your statement, or your attitude, you would not continue the War Powers Act but feel that legislation ought to be enacted that would create an agency dealing only with rents.

Mr. WASON. Well, the stand of our association is that all controls including rents, should be removed as of, and not later than February 15. The statement about rents is part of the discussions among us, and since I am speaking here under authorization from the board of directors of the National Association of Manufacturers, I do not want to enter my own personal opinion.

Mr. WALTER. You stated that agreements with respect to industrial relations should be faithfully kept by all parties and suitable penalties provided for those who break them. Have you any suggestions as to how to deal with that question?

Mr. WASON. Mr. Randall will develop that in considerable detail, answering your question specifically, Mr. Walter, if you please.

Mr. WALTER. Thank you very much.

The CHAIRMAN. Mr. LeFevre.

Mr. LEFEVRE. No, sir.

The CHAIRMAN. Mr. Zimmerman?

Mr. ZIMMERMAN. Well, speaking of rent controls, you spoke of a lack of production. Do you refer to housing?

Mr. WASON. My reference was principally to the manufacturing industry, which, of course, produces many items entering into housing, but there is a lack of production of housing and there has been for much of the past 15 years.

Mr. ZIMMERMAN. Well, of course, during the war you know lumber and building material have been in very short supply.

Mr. WASON. Yes, sir.

Mr. ZIMMERMAN. And I think you are aware of the fact that it would take a long time for our lumber supply to catch up.

Mr. WASON. Yes, sir.

Mr. ZIMMERMAN. Maybe some controls would be necessary in order to keep the public from being imposed upon. Don't you think that is true?

Mr. WASON. Your question explains my statement on the subject of rents, that is, that there might well be control of rents and no controls other than controls of rents.

Mr. ZIMMERMAN. But of course we all know that this housing situation is rather acute and is going to be for some time to come. We almost depleted our forests in order to meet a war emergency.

Mr. WASON. Yes, sir.

Mr. ZIMMERMAN. To quote the famous poem, "Only God can make a tree." It takes time to grow a tree. Maybe the controls should be continued a little while. I agree with you that controls should be removed just as speedily as possible to let us get back to normal.

Mr. WASON. Yes, sir.

The CHAIRMAN. Anything further?

Mr. ZIMMERMAN. That is all.

The CHAIRMAN. In that connection, Mr. Wason, I might observe

that I think this committee which has been working on this problem of removal of wartime controls for some time is definitely in accord with your suggestion that they should be removed at the earliest possible moment.

Now, the question, of course, is what is that moment? When does that moment arrive? We are all in accord, I am sure, with that thought, but what we are trying to work out is the proper time to remove these controls. Some of us recently returned from a rather extended mission to Europe and the conditions we observed there first-hand with reference to inflation caused us all to stop and think on that subject. When you see a pair of wooden-soled shoes selling for \$80, it makes you do a little stopping, looking, and listening, as well as thinking. We want to get rid of these controls, and I agree with you, sir, that there should be a definite period—and I personally have emphasized that—beyond which these controls cannot go. We all recognize the danger of governmental agencies, bureaucrats if you want to use that term, desiring to perpetuate controls. But in the interest of the people of the country and the welfare of the Nation, we feel that that is a subject requiring considerable thought and consideration.

Mr. WASON. May I comment? The situation in Europe which you say and about which we have read in the press of course is tragic beyond description. The supply of money, however, in the United States has multiplied times 6 since 1933, and our great anxiety is to continue the great production that took place in the war, which is the only offset available in our economy to establish balance against the money outstanding. Wage increases do not do it. It requires production. And our recommendation on price control eliminations is solely to assist the forces of production to create goods.

The CHAIRMAN. I can find no fault with that statement, sir. That is one of the objectives of this committee, to bring about full production and employment.

Mr. WALTER. May I interrupt at that point? How do you reconcile what you say with the recommendation that the Government should withdraw from the financing of peacetime industry, when most of the financing during the wartime was by the Government?

Mr. WASON. The financing which the Government undertook during the war—and it had undertaken since before the war, as we all know—was for the extraordinary requirement imposed on us by the enemy, and the Government asked industry to assist. The Government gave industry amortization of its facilities in many instances to assist the investment of private money.

Mr. WALTER. Due entirely to the fact that no private banking institution, because of the law, has a right to finance a business to the extent that its needs required.

Mr. WASON. There is no private institution in America which, under the law, could conceivably finance the Consolidated Vultee or the expansion of Douglas or the expansion of North American or others, or the construction of tank plants, and neither the airplanes which were financed by the Government, nor the tanks which were financed by the Government, which were not items entering into commercial or industrial use; they were military.

Mr. WALTER. Those companies that produced those things we hope will produce things during peacetime, which, of course, will require the same kind of financing.

Mr. WASON. May I comment on that statement?

Mr. WALTER. Yes.

Mr. ZIMMERMAN. May I ask a question before he does?

This committee brought out a bill, you know, for the termination of war contracts, and that bill provided for loans to companies to reconvert and get back into peacetime production. Did you agree with that report of this committee and the legislation that was passed following its recommendation?

Mr. WASON. That was a helpful act.

Mr. ZIMMERMAN. You were in favor of that Government financing, weren't you?

Mr. WASON. It was of great value to many corporations, particularly those that had developed during the war.

Mr. ZIMMERMAN. Now, is that in opposition to what you have just said?

Mr. WASON. May I offer a comment to Mr. Walter?

Mr. ZIMMERMAN. Well, I wanted to give you those facts, in order that you might answer that question.

Mr. WASON. May I offer a comment to Mr. Walter in that connection which is in part but not in total answer to your question?

Mr. WALTER. Of course, it would be ideal—being connected with several banks, as I am—if private banking institutions were in a position where they could meet all of the demands. But I may say that it is utterly impossible because you come to the point where your surplus and undivided profits are not sufficient to justify or make it possible for a bank to make a loan. Then, immediately, the prospective borrower is confronted with one of two things: Either he has to go to one of the great banking institutions in New York and perhaps they do it—in many instances they can—or he must turn to the Government.

Mr. WASON. May I take up your first question first?

There are tremendous war plants idle. They are filled with tools of great value. Many corporations, including our own small company, would like to buy some of those tools. Months pass. Trip after trip is made by plane or train to the cities in which these plants are located in an effort to obtain those tools. But after months of effort they are still unreleasable to the industries that could utilize them.

The CHAIRMAN. Do you refer there to Government-owned tools?

Mr. WASON. Yes sir, Government-owned tools in Government-built plants.

The CHAIRMAN. I am sure, from my point of view at least, that you are correct in that statement, unfortunately, because we here on the Hill are experiencing the receipt of many complaints along the same line in the disposal of our surplus property. I think the indictment is well made on that point.

Do you have something, Mr. Worley?

Mr. WORLEY. On the whole your remarks are very sound. I hope all business agrees with you in practice what you have stated in your recommendations. You ask one question in here: Is the war over? I think everybody agrees the shooting has stopped, but don't you agree that we are sitting right now on a powder keg of inflation? So far as our economy is concerned, the war is not over because of the conditions which the war has brought about. I think it has grown progressively worse since the war ended. Do you agree with that?

Mr. WASON. Yes, sir.

Mr. WORLEY. All right. You come here and recommend that all these price controls be released at a given, fixed arbitrary date, within 6 months after cessation of hostilities.

Mr. WASON. Yes, sir.

Mr. WORLEY. I can't believe that you have given a great deal of sound study to that position, have you?

Mr. WASON. Yes, sir.

Mr. WORLEY. We had Mr. Snyder before this committee yesterday and he assured us positively that WPB and all Government agencies are removing controls as fast as they can. Do you agree with that?

Mr. WASON. I do not think that is true of OPA. We think that the War Production Board—

Mr. WORLEY. Do you agree with Mr. Snyder's statement that the WPB is removing them as fast as they can?

Mr. WASON. No; I do not agree with that.

Mr. WORLEY. All right. We had Mr. Bowles before the Committee on Agriculture and before this committee. He made the statement, and has made it repeatedly, that just as soon as the supply of a given commodity reaches the point of demand, price controls are removed. Do you agree that he has followed out that policy?

Mr. WASON. No. I think he has choked production so that supply can't meet the demand with the speed that is needed by the economy to get off this volcano on which we sit.

Mr. WORLEY. Suppose you turn loose all controls, say today, what would happen?

Mr. WASON. We have no recommendation that they be turned off today.

Mr. WORLEY. What changes will come about between now and February 15 which will change your opinion as of today? What do you expect to happen in the meantime?

Mr. WASON. We think there will be a continued struggle on the part of industry to get into manufacturing of peacetime goods under continued restrictions imposed by the OPA and that some progress will be made. It will be costly, and it will be without profit, and employment will suffer seriously as the result of the failure of industry to get into production. We have a backlog of unbought goods that goes back to 1930. In 1935, Colonel Leonard Ayers estimated that the backlog of unbought goods was unparalleled in American history. Now, what is the backlog that has accumulated in five further years of depression and much of 4 years of war? The opportunity available for the use of this tremendous industrial mechanism, financed

in part by Government and in part by industry, and all of us working together, is being restricted, and it is our belief—and I began by saying that I come here as the representative of 14,000 manufacturers through their board of directors who, by formal resolution, have authorized me to make the statements contained in this document. It is not a personal opinion I am attempting to express.

Mr. WORLEY. Do you suppose all those 14,000 have sat down and listed on the one hand the supply of a given commodity and over here (indicating) the demand? Do you think they are sufficiently informed to express the opinion that you expressed?

Mr. WASON. Yes, sir; I believe that they are. They have been supported by a research department which has studied this subject extensively, and the director of that research department is in this room and available to answer the questions that you may ask: Did he do it or did he not?

The CHAIRMAN. If there is nothing further, then we will hear from Mr. Airey.

Mr. WASON. Thank you very much, gentlemen.

The CHAIRMAN. Thank you very much, Mr. Wason, for a very splendid statement.

STATEMENT OF JOHN AIREY, PRESIDENT, KING-SEELEY CORP., ANN ARBOR, MICH.; CHAIRMAN, WAR CONTROLS COMMITTEE OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

The CHAIRMAN. Will you identify yourself, please, for the record?

Mr. AIREY. Mr. Chairman and gentlemen, my name is John Airey. I am president of the King-Seeley Corp., of Ann Arbor, Mich., a corporation which started from zero in the manufacture of automobile parts in 1922. I appear as chairman of the war-controls committee of the National Association of Manufacturers, in support of the recommendations of its reconversion council.

Government controls were necessary in wartime for many sound reasons. They were accepted by the Nation as a price to be paid for fighting a total war to victorious conclusion.

With the end of the war, some controls were eliminated—with commendable promptness—notably manpower and materials for civilian production. But a needless prolongation of other controls during peacetime—notably the price controls—can serve only as a deterrent to production and, therefore, to employment.

Long before Germany was defeated, both Government and management directed much thought to the anticipated problems of reconversion and employment. Speculation over the speed with which industry would be able to reconvert to civilian production led generally to the conclusion that one of the greatest difficulties would be confronted in the physical reconversion of industrial facilities; i. e. in retooling, in rearrangement of production and assembly lines, in clearing plants of Government-owned materials, and in winding up quickly contractual dealings with the Government.

The great progress made since VJ-day in getting plants ready to produce peacetime goods demonstrates that this concern was unfounded. Reports from businessmen over the country that industry has, with few exceptions, solved the problem of physical reconversion

are borne out by a recent survey made by the Chairman of the War Production Board.

A large share of the credit for this progress may be laid at the doorstep of WPB itself and the agencies carrying out the policies of the Office of Contract Settlement.

WPB has given great impetus to the resumption of civilian production by getting out of the picture. WPB officials on numerous occasions stated that production controls would not be continued for the sake of directing the economy.

The policies laid down by the Office of Contract Settlement, based on the sound provisions of the Contract Settlement Act of 1944, have paved the way for prompt settlement of industry's claims against the Government arising out of terminated war contracts. Contracting agencies have demonstrated their desire to leave no obstacles in the way of industrial reconversion by removing in short time Government-owned equipment and materials from contractors' plants.

It is no coincidence that great progress in reconversion has been made in those areas where Government has withdrawn controls or is actively removing obstacles to plant reconversion. If WPB had maintained its controls in an effort to decide how much material and production each industry would be allowed, physical reconversion would have been stalemated. Because restrictions were removed, plants now are prepared with few exceptions to achieve that great volume of production necessary to provide consumers with goods and labor with jobs.

Despite the progress made in preparing plants for peacetime production, their actual operation is being seriously delayed through the cumbersomeness of price control administration and the uncertainty of its final termination date. Some manufacturers cannot afford to maximize operations already started because of the present uncertainty of profits or the extent of losses. Such uncertainty is still greater in planning expansion.

Industry finds itself caught in a squeeze resulting from the rise in costs of production and the restrictions upon prices. According to the Bureau of Labor Statistics, the price which manufacturers now have to pay for raw materials is approximately 26 percent above the price level at the time of Pearl Harbor, while labor costs, as measured by hourly earnings, have increased 31 percent. On the other hand, during the time since Pearl Harbor, factory prices for manufactured commodities have gone up only 8 percent. This discrepancy clearly reveals the extent of the price squeeze. These figures also belie the claims of OPA that it has protected the manufacturer by stabilizing the cost of his materials.

The profit squeeze is particularly dangerous for small business. Large and well-established businesses may have enough capital to tide them over periods of losses, but small businesses which must pay as they go are dependent upon day-to-day profitable operations for their very existence. To deny a reasonable chance for profit to them is to condemn them to bankruptcy.

Even if price control were continued indefinitely, it would be administratively impossible to maintain the necessary continuous reviews and readjustments of prices in the light of changing costs. OPA has already demonstrated an inability to review promptly requests for price adjustment. Statistics compiled by the Brookings Institution

from OPA records reveal serious delays. From January 1, 1943, through September 1944, stove producers filed 78 applications for adjustments in ceiling prices. Only 20 percent of the applications were decided within a month—50 percent more took up to 3 months—and the remaining 30 percent took up to 9 months. Here, then, is striking evidence of the impracticability of requiring administrative review of price ceilings in the face of constantly fluctuating costs. Now that the war's end makes increased civilian production possible, the administrative problem is increased enormously.

This administrative log-jam is increased by the failure of many manufacturers to seek needed price adjustment during the war on thousands of civilian items, because such losses were carried by war profits. The necessary time of the technicians required for this could be ill-spared from war effort—and such relief would not affect the over-all profit figure.

A price squeeze pattern would evolve a series of continuing price adjustments, due to the inter-relation of suppliers and final producers—which pattern would cause a succession of small increases as opposed to one major increase. Successive price increases relatively close together in timing, although small in magnitude, would be deadly as they would increase forward buying. A single increase equal to the sum of such successive increases is harmless by comparison.

Therefore, in the interests of securing promptly the large volume of goods which the country needs and the high level of employment which we all want, the NAM reconversion council recommends that price control be eliminated not later than February 15, 1946, which is 6 months after the surrender of Japan.

To continue price control longer is to invite prolongation of the present uncertainty and lag in the growth and development of civilian production.

In the meantime, however, OPA should revise its reconversion price policy so that increased costs will be recognized and manufacturers permitted a chance to make the profit earned under competitive conditions in some prewar base period such as 1939 or 1940. The more quickly we can get back to reliance on competitive forces the higher will be production and hence the standard of living.

A recent report by the House Select Committee to Investigate Executive Agencies clearly brought out the retarding effect of OPA policies. One experienced manufacturer of electric irons was not allowed to sell at \$3, but a newcomer, under a formula, unhandicapped by past practice, could sell at \$5.50.

It is a fact that two foundries by swapping business, each thereby making a product new to it, may enjoy a higher ceiling based on formula as opposed to the limitation of its own historical pricing. This is really unsound manufacturing and decreases total output.

Coupled with price control as a deterrent to production is the reluctance of the Government to withdraw completely from wage and salary determination. In peacetime, wages should be determined by uninfluenced negotiation between management and employees. The NAM reconversion council applauds the following statement in President Truman's recent wage-price speech recognizing this principle:

I am convinced that we must get away as quickly as possible from Government controls, and that we must get back to the free operation of our competitive

system. Where wages are concerned, this means that we must get back to free and fair collective bargaining.

However, the effect of the President's policy of encouraging wage increases while keeping the lid on prices is to maintain Government intrusion in the wage determining process.

The encouragement by the Government of wage increases, while at the same time adhering to the policy of strict price control is an inconsistency which can only further the delay already experienced in reconversion. Wages are the most important costs of production and therefore the most important element in prices. No matter how sincere Government officials may be in attempting to divorce the two interrelated factors of wages and prices, it is axiomatic that to increase wages is to increase costs of production.

This does not mean that higher wages cannot be granted; wages can rise to the extent to which the public is willing to pay for the increased costs of products in higher prices. Or the effect of wage increases can be minimized through greater and greater productivity so that costs spread less strongly or not at all in prices. But at a time when greater productivity has not been secured, the Government only creates confusion in attempting to establish an artificial relationship between wages and prices.

By encouraging wage increases, the Government is making it extremely difficult for OPA to maintain price stabilization. The most that OPA can expect to accomplish is to delay price advances by delays in granting price relief, and this practice will deter much needed expansion capital. On the other hand, if OPA continues to apply the profit squeeze, it must recognize that the profit squeeze has a limitation beyond which production growth can not be maintained.

The Government's objective in the reconversion period—to avoid both inflation and deflation—can be achieved through production. The Price Administrator himself has proclaimed that "the way to answer inflationary threats is with production." Only through an abundance of commodities can the reservoir of excess dollars be soaked up. Only through increased production can labor have more.

The achievement of production is being delayed through the continuation of Government controls over prices and wages. The elimination of these controls will open the gates to an avalanche of goods which our factories are now preparing to produce.

The most pressing need is to know, at the present time, when price control will be eliminated. That is the real green light to reconversion and prosperity and jobs.

The CHAIRMAN. Thank you very much, Mr. Airey, for your very splendid statement.

Mr. Cooper, do you have some questions?

Mr. COOPER. No questions.

The CHAIRMAN. Mr. LeFevre?

Mr. LEFEVRE. No.

The CHAIRMAN. Mr. Walter?

Mr. WALTER. I am afraid that you are not mindful of the fact that there will be a period, or that there is a period when the manufacturers can't meet the terrific pressure of the present buying power.

Mr. AIREY. Yes, I am fully aware of that. Might I add, Mr. Walter, that we are conscious of that and that is why we want to get our supply maximized as rapidly as possible.

Mr. WALTER. I think everybody wants that, but don't you feel that until the time arrives when there is an adequate supply throughout, there ought to be controls?

Mr. AIREY. No, I do not feel that way. I think that when a balance between supply and demand is in the visible future—by that I mean a few months away—I think we can make the most speed by then taking off the controls. We are not calling for them off right now. By so doing, we shall make the most speed in bringing about that condition which we all desire.

Mr. WALTER. I feel this way about it. If the manufacturers of this country, who after all supply the jobs, knew when all governmental controls would be removed, it would act as a very great stimulant.

Mr. AIREY. Oh, absolutely, absolutely.

Mr. WALTER. But then the question is, what date should they be removed, when should they be removed?

Mr. AIREY. Well, our date is February 15.

Mr. WALTER. Did you reach into the air for that?

Mr. AIREY. No, we did not. It is a rather long story to tell you how we got that, but I might attempt it as briefly as I can.

The CHAIRMAN. That will be very interesting.

Mr. WALTER. That is what we want to know.

Mr. AIREY. To do this, it is necessary to give you the thought pattern developed in our war control termination committee and to follow its changes. In starting out, we studied why it was necessary to have price control at all. It was not because of the technical fact that the country was in a state of war. Price controls were not necessary in the time of the Mexican or Spanish Wars. We did not even have price control in World War I. The cause lay in the fact that the strictly war content of the economy—ammunition, guns, tanks, planes, and ships—became greater than ever before and got to the point where it pushed out civilian production. Then, there was a shortage of supply, and so prices would rise continuously unless controlled; wages similarly. We wondered if this shortage could be measured. Technically, I did not think it could. The research department of the NAM explored all the data furnished by the Department of Commerce, but could not find what we were after. Finally, they uncovered the War Production Board's munition index. This was substantially the complement to the object of our search.

This index gave munition activity from the beginning of 1940—not in dollar values, because dollars have a habit of being phoney at times in war work—but in physical units. It is an interesting index and is based on 100 average for the year 1943. After Pearl Harbor it climbs very steeply and gives a feel of how quickly we converted.

Now reconversion could and should be a simple problem compared to conversion. In converting, we had to manufacture products in which we had no experience and, more important, had to design and construct special tools before we could start. In reconversion, by contrast, we are going back to our former seasoned activities with the special tools in storage and ready to use.

We decided that when some certain vacuum in the production of civilian goods existed, that is, facilities were no longer used for the war content of the economy, then 6 months thereafter would be a big plenty to get production rolling. My own opinion was that 3 months

would be enough for all except a few segments of the economy, and I still think that.

Mr. WALTER. Did you consider the patriotism of the people as a factor?

Mr. AIREY. Not exactly. We considered that the war work fever would be over, continuity of work might suffer and so we stretched it to 6 months after some certain vacuum developed for the production of civilian goods. The thinking on timing went something like this: The index I have briefly described—well, we took a look at February 1942. I come from Michigan where the automobile is the main activity. You gentlemen may remember that February 1942 was the last full month of automobile production; similarly, for refrigerators, radios, washing machines, and so forth.

In February 1942, the civilian economy of this country was very, very healthy in spite of the fact that we were producing quite a little war work by that time. In fact, I think the civilian economy at that time was at an all time peak historically. The munition index in this period was around 35. In other words, we were producing munitions at the rate of 35, and in addition, had a very healthy civilian economy. The next month much civilian production was shipped off, including my company's activity, automobile parts.

It may interest you to know that this WPB munition index which is very little known and not appreciated as it should be, shows that we reached the top in late 1943, which startles a lot of people, including myself. The reason is that the building and equipping of the "Willow Runs" and similar projects tapered off.

The index peak was 117 and was 105 at the time of VE-day, I think. Now, all this which I have told you so far was thought through before VE-day. The analysis continued from month to month in our war control termination committee. After VE-day we had to look forward further and our thinking pattern ran about like this:

We did not foresee that Japan would be licked so quickly. In fact, there was one school of thought that believed it would take 2 or 3 years to lick Japan, so we had to take that into consideration. Now, if it did take 2 or 3 years, it seemed to us it would be because of continued scattered guerilla fighting in which the military content of the economy might be low—in fact, it might go back to that of early 1942 or less.

If this happened, there was no useful purpose to be served in keeping controls on until the technical ending of the war—in fact they would be a deterrent to reconversion.

So, we wanted to get some method, some specification, which instead of tying the removal of economic controls to an event, like the end of the war, which is a technical thing, would tie it into the economic condition of the country.

Just prior to VJ-day, our picture was this: If and when the WPB munition index comes down to 35, that is, about the value of February 1942, there will be enough unused facilities for producing civilian goods to give a very healthy civilian economy, specifically that of February and March 1942. However, we would have to reconvert. Now give industry 6 months after the index falls to 35 and there is no excuse after that for control continuation, unless we have, all of us, done something very, very foolish in the meantime.

Now, VJ came on us overnight. The munition index, I think, was around 100 before VJ-day, but, of course, it fell like a plummet. Specifically, in my own company, munition items fell about 95 percent in, I would say, about 24 hours. I did not like it, as a manufacturer, but as a citizen and a taxpayer, I quite admired that speed. And that is pretty much what happened around the country.

So that is the story, Mr. Chairman and gentlemen, of how we happened to specify 6 months after the termination of the war. It looks as if we picked it out of the air, but we did not, neither the interval of 6 months nor the event of VJ-day.

The CHAIRMAN. Very interesting.

Mr. LEFEVRE. Mr. Airey, I do not know whether you studied the lumber production, but do you believe that by February 15 the supply of lumber will take care of the demand?

Mr. AIREY. I don't know much about lumber, Mr. LeFevre. I think there are many things where the supply will not take care of the demand by February 15.

Mr. LEFEVRE. That is the reason why I wondered at the statement that all controls should be taken off by February 15.

Mr. AIREY. The only reservation I have is the rent situation.

Mr. WORLEY. Why do you except that? What is different about that?

Mr. AIREY. Again this is an individual rather than a reconversion council opinion. I personally think there is a very good reason for it. I am speaking of rents of old houses only, not of new houses, because that does not disturb production; it does not interfere with the act of producing anything new. It merely means that, if I rent an old house, then my rent stays down a little longer.

Mr. WORLEY. Why do you advocate rent controls but not other price controls?

Mr. AIREY. Because of the shortage, and the fact that we want to maximize production.

Mr. WORLEY. Aren't other things in short supply? What about automobiles, radios and refrigerators? Why except one without excepting the others when they are all scarce or short?

Mr. AIREY. I would not follow with that, Mr. Worley, at all. I draw your attention to the fact that in the lowest income bracket rent is a much bigger factor of total expenditure than is anything else.

Mr. WORLEY. Well, all things that price controls are now on are short. The reason for the controls is because they are short, as I understand you found in your study. As soon as the production fell below that healthiest normal in 1942, you decided price controls would be necessary for those short products. Is that correct, Mr. Airey?

Mr. AIREY. Yes.

Mr. WORLEY. All right, they are still short.

Mr. AIREY. Yes; they are still short, but provided in a few months ahead there is a fighting chance to produce a balance, I say we shall get the balance at an earlier date in a free market, and I would like to enlarge on that.

As long as price controls continue, many keymen spend time in compiling cost data and in contacting OPA. The time taken by this

activity is appreciated only by men involved. I can speak feelingly on this from my own company's standpoint. The time of such men is needed in removing the log jams of production.

Take big business, although my own company is small. Big business can and does take a long view of its ultimate competitive position. It must or it is not intelligently acquisitive.

Smaller business, such as my own company, which feeds supplies of parts to bigger business, must follow suit either due to pressure or again because of intelligent acquisitiveness. We are not looking for profit this month or next, nor until we get volume reestablished.

There is not going to be the hogging that some people are theoretically afraid of.

Mr. WALTER. That is the one thing OPA does not seem to understand, that you can price yourself out of business.

Mr. AIREY. I know they don't.

Mr. WALTER. That is one thing Mr. Bowles just does not seem to realize.

Mr. WORLEY. Let me ask you this: The tax bill passed a week or so ago repealed the excess-profits tax. What effect will that have on your reconversion process?

Mr. AIREY. That is a very interesting question. I am glad to answer it, speaking for our industry—automobiles. We just laugh at the removal of the excess-profits tax. Mind you, it is a good thing to do and I am not disapproving of it. I would be delighted to pay excess-profits tax in this current fiscal year. In other words, we do not expect to make that amount of profit. Our volume fell down from over \$1,000,000 a month to a quarter of a million, just like that [illustrating] to a small volume of peacetime products. Now we are climbing up. We are operating on inadequately low prices—parts for the automobile industry—but figure that some solution is going to be found and we are not squawking.

Mr. WORLEY. Have you noticed any tendency on the part of any manufacturers to defer production until next year in order to take advantage of the excess-profits repeal?

Mr. AIREY. I hear that said, but I do not believe it. I suppose anything can happen in a sprinkling of cases, but I feel that a manufacturer is not intelligently self-interested—I will qualify that in a moment—who does not produce all he can. I know that we are doing it, even though the prices are unsatisfactory, because if you produce more, you do lose a little less. In other words, there is such a thing as fixed overhead, which in a highly integrated industry is very heavy. We may sell an article at a price which is an over-all loss beyond ambiguity, but nevertheless we lose just a little more if we fail to produce it. That is speaking for the high-production type industry; it is not true for all types.

The CHAIRMAN. I wonder if I might just interject here—wouldn't a manufacturer make himself liable to losses in the future by such a selfish policy in that he might lose his trade if he failed to produce now?

Mr. AIREY. Positively. My company would be severely harmed. The Ford Motor Co. is our biggest customer. If we refused to produce, it would take 10 years to live it down.

Mr. WORLEY. I have one further question, on page 5—

Mr. AIREY. May I make another comment? Take the small manufacturer—my own activity is of medium size—the newcomer is the

man we have got to watch in the coming era. On him depends the industrial vigor of the future. The newcomer has to make money month by month, and that is a serious thing. He cannot do what the large or medium operator can do—take a long look at the horizon 6 or 12 months ahead and say, "Well, we will weather the storm."

The way we are now moving with the price structure is this: If you are in trouble in 6 month's time, you can come and ask for relief. Now comes a lot of detail work by keymen, badly needed constructively, and more time elapsing.

Let's look at that 6 months or more if you are small and in trouble. The manager of a business, if he is making a profit, or even if he only thinks he is making a profit, say next month or the month after, will probably spend or commit that profit in advance because of the demand he can see around him. If he has, or can see a profit, he will also use bank credit in order to increase inventory and maybe a little plant expansion, thereby increasing his production.

If, on the other hand, profits are not there, or if he is losing, he knows that he has to meet the pay roll and so will hold back. Now that is nothing but plain common sense to a man operating a business. I think that that is the most important factor that we now have to watch.

MR. WORLEY. You say on page 5, "In peacetime wages should be determined by uninfluenced negotiation between management and employee." I do not think that anybody can disagree with that point, but suppose they do not get together. What is the alternative?

MR. AIREY. I am not very expert on labor relations, having had experience only with an open shop, and so can give you only a layman's view.

MR. WORLEY. What are your views as a layman?

MR. AIREY. I say we would get together one way or another.

MR. WORLEY. When? When you saw your profits going down and when labor saw their wages going down?

MR. AIREY. Yes, and presumably before that time.

MR. WORLEY. Should the government step in and enact legislation?

MR. AIREY. We can't afford to let the whole economy down, but my judgment on that subject is that the administration could, by suitable publicity and propaganda, without definitely interfering, be very helpful, but I prefer to leave that subject to Mr. Randall.

MR. WORLEY. Thank you.

MR. WALTER. May I add just one question?

THE CHAIRMAN. Yes.

MR. WALTER. Is there available to industry generally the tools and equipment that it needs now to reconvert?

MR. AIREY. Yes, decidedly.

MR. ZIMMERMAN. I would like to ask a question. You have been talking about the laboring man. What about John Q. Public? Who is going to look after him?

MR. AIREY. He is the most important man of all.

MR. ZIMMERMAN. You are against the public having anything to do with these operations? Is that right? You don't want the government in the picture at all, do you?

MR. AIREY. I don't know how far you are going with that, Mr. Zimmerman.

Mr. ZIMMERMAN. I am talking about the question of prices and the question of labor.

Mr. AIREY. I would prefer to stick to price.

Mr. ZIMMERMAN. I understood you to say that you thought the Government ought to stay out of it and let them work it out themselves.

Mr. AIREY. I don't think Government should specify what wages labor should receive, or prices employers should receive.

Mr. ZIMMERMAN. That does not answer the question, you are hedging a little bit there. Whenever we come to a situation that John Q. Public is suffering because of the fact that labor and management agree to get together and won't get together, and we have a condition throughout the country that we feel might become a very serious threat, who is going to protect John Q. Public if the Government does not have something to say about it?

Mr. AIREY. My answer to that, Mr. Zimmerman, is that public opinion, if the situation gets bad enough—

Mr. ZIMMERMAN. Well, if you are sick enough and ready to die, it does not do any good to call a doctor does it? Is that a wise policy?

Mr. AIREY. Well, I would welcome any method that prevents that which you are talking about as a temporary expedient, but for the long run, we certainly must leave compensation to negotiation and prices to competitive supply and demand.

Mr. ZIMMERMAN. That is all right. It is a fine theory, but it looks like we have almost reached the point where it would not work out.

Mr. WALTER. Don't you think that after our experience with the Smith-Connally bill we ought to be content?

Mr. ZIMMERMAN. Well, anybody knows that that was not the expressed will of Congress; it was a makeshift to start with.

Mr. WALTER. It was an abortion.

Mr. ZIMMERMAN. It was known that it would not work. It was an abortion, exactly, and it was just something handed out that they thought would satisfy for the time being. Mr. Walter has described it—it was an abortion, pure and simple. They knew it would never do the job a lot of people hoped it would do, but I think the time has come when we have to sit down and work out something whereby labor will be protected and industry protected and John Q. Public protected. Now, if it takes some government—I do not want too much government, I am against Government interference just as much as anybody, but I think there is a place for Government in there. You turn business loose and we know what they will do for the country; we know what they have done in the past, and if you turn labor loose, they will do the same thing. Now there has got to be some curb somewhere, in my honest opinion, and I know of no other source than a sane policy by Government.

Mr. CHAIRMAN. I have no disposition to cut this question and answer period, but I think we are getting off the subject of controls, and we have another witness that we want to hear.

Mr. ZIMMERMAN. Just one further question.

Mr. CHAIRMAN. Very well.

Mr. ZIMMERMAN. You spoke about this new man in business, his problem. I thought he was the fellow who was occupying the advantage point under this price-control system.

Mr. WORLEY. He got \$5.50 per iron.

Mr. ZIMMERMAN. I thought he was sitting up there and getting along beautifully.

Mr. LEFEVRE. That was during the war.

Mr. WALTER. But just a little while.

Mr. AIREY. Can I answer that, Mr. Chairman?

I am not quite sure of what I am saying but will clear it up in a moment. Whether the man who made the \$5.50 iron was a new manufacturer or not, I do not know, but doubt it. To come to the next remark made in my direct presentation, the confusion in foundry pricing is well-known.

A foundry has made, say, this product [indicating an ash tray], and so has a history of price covering that, which history, modified, governs the resumption of production price.

If a new type of item is considered by that same foundry [indicating an eye-glass case], the price ceiling is controlled by a formula based on the costs of current labor and overhead. It would be a miracle if similar margins of profit resulted in the two cases.

It is not facetious but is a literal truth to say that cases exist where two foundries could pick up the patterns and exchange them like this [indicating] and both be able to use higher ceiling prices.

I do not know that that has actually been done, but I do know that there are many cases of different ceiling prices for the same product in different foundries.

I say that noncritically of OPA, because the OPA has done an excellent job in wartime. The peacetime job is just too big to be handled. Munition profits no longer mask losses on some civilian goods, which in turn requires a great volume of added decisions and quickly.

Mr. ZIMMERMAN. If Mr. Bowles will carry out the promise he made to the Committee on Agriculture the other day, that just as soon as the supply of anything reaches the point of demand, the ceilings will go off, isn't that a sane policy?

Mr. AIREY. I disagree with Mr. Bowles. He will wait an awfully long time, because the gradient in getting out the supply will be very very slight compared with what it would be were the ceilings off.

Mr. ZIMMERMAN. You praise him in one breath and give him the devil in the next.

Mr. AIREY. Well, that is fairly logical.

Mr. CHAIRMAN. Our time is getting limited here.

STATEMENT OF CLARENCE B. RANDALL, VICE PRESIDENT, INLAND STEEL CO., CHICAGO, MEMBER OF THE LABOR LEGISLATION COMMITTEE OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. RANDALL. I will try to be brief, Mr. Chairman.

My name is Clarence B. Randall. I am vice president of Inland Steel Co., of Chicago. I appear as a member of the labor legislation committee of the National Association of Manufacturers in support of the recommendations of its reconversion council.

The National Association of Manufacturers has no part in the formulation of labor policy for individual employers, but through the cumulative experience of its 14,000 members, the association does

have a composite viewpoint as to the part which Government should play in the solution of these questions.

The association believes that in the field of employment relationships governmental policy, whether administrative or legislative, should take the following factors into consideration:

1. The function of industry is to produce goods. These must be goods that the public wants and they must be offered at prices that the public will pay. When that occurs, the employees, the consumers, and the investors all benefit.

2. High quality goods at favorable prices are the product of efficiency, and efficiency depends upon sound employment relationships.

3. Such sound employment relationships are not brought about by a national formula: they are the function of a happy relationship between a particular employer and his workers. Government cannot create that relationship, but it may do much to foster the atmosphere within which it will thrive. It is for Government to create equality in privileges and obligations as between employer and employee. And it is for Government at all times to be diligent to protect the public interest and the rights of individual citizens.

4. Government must scrupulously protect the right of workers to bargain individually or collectively through representatives of their own choosing. In such bargaining there must be a genuine effort on each side to reach a mutually satisfactory arrangement, but either party must be free to accept or reject proposals made by the other. The form of employee organization should never be dictated nor controlled by any governmental agency. Government should protect the right of workers to engage in lawful strikes, by lawful methods, but Government must be equally diligent to protect the right to work.

Both the law itself and the administration of the law must strictly preserve the rights of free speech, the rights of property, and the right to work or not to work. It must not be forgotten that we still have a constitution.

The association has embodied the foregoing in an approved statement, which is as follows:

We believe in bona fide collective bargaining, with both parties entering upon negotiations in good faith to determine terms and working conditions of employment that will further the progress of the enterprise and will provide an environment in which management and labor may work together in harmony and contentment.

A. The association advocates the reestablishment of free collective bargaining at the plant level.

I used the word "reestablishment" intentionally because in many ways and at many times during the past few years it has not been free.

It is not free when union security is placed above the right of the worker to make his own decisions.

It is not free if organized labor is permitted to coerce public agencies by political methods.

It is not free if strikes occur in open violation of contracts.

It is not free if the individual employer is placed under Government pressures to join in industry-wide bargaining without regard to the individual problems of his business or the geographical considerations of his area.

B. The association advocates the establishment of equality of responsibility and obligation in the performance of labor contracts.

For many years past it has been the employer only who has been held responsible.

Severe penalties have often been imposed upon the employer, but never upon organized labor. Government sanctions have been invoked against management that have had no counterpart with labor.

In open violation of carefully written contracts there have been strikes without notice, strikes that were political rather than economic in purpose, and strikes that were said to be unauthorized although obviously planned and directed.

It is of no avail to "sit down at the conference table and iron out our troubles together," in the manner so ably suggested by the President, if when the conclusions thus arrived at have been embodied in a written agreement, that contract is not lived up to. Management is answerable at every turn for its commitments, but labor suffers no penalty for violation. There will be no equality at the bargaining table until labor is made to assume the same measure of responsibility for its contractual obligations that it expects and receives from management.

Penalties must not only be established for the breaking of agreements arrived at through collective bargaining, but steps must be taken to protect property from damage caused by violence in labor disputes, and the severe losses suffered often by business institutions who have no relationship whatever to the dispute, by the mass picketing or violence in other institutions with whom they have business relationships.

Only by the imposition of legal penalties that carry substantial weight can this assumption of full legal responsibility by organized labor be made a reality.

C. The association urgently advocates the elimination of compulsory payments by workers as a condition for securing or retaining employment. If the American tradition is to be maintained, each workingman must be free to join or not to join a union as he may desire. And it follows from this that he must be free to resign from a union which he has previously joined if he no longer finds himself in sympathy with the leadership or objectives of that organization.

Mr. WALTER. You ought to go just a little bit farther and say he should not be penalized for so doing.

Mr. RANDALL. The doctrine of union maintenance and compulsory check-off was imposed upon industry during the war without its consent, and industry must now be freed from that conspiracy to coerce the individual freedom of the worker. The whole institution of collective bargaining must be made to rest permanently upon the free action of the workers. There is no place in this American institution for physical violence or any other form of compulsion or coercion. The public interest demands from Government that no group, whether management or labor, be permitted to interfere with the privacy of that choice by the worker.

Veterans:

The association pledges itself to do everything within its power to promote jobs for returning veterans.

Clarification is most urgently needed, however, from Congress and governmental agencies as to the exact legal rights of veterans insofar as jobs in industry are concerned.

Unfortunate confusion now surrounds this whole subject because of conflicting interpretations of the employment provisions of the Selective Service and Training Act, and the opposing views of administrative agencies, as well as court decisions. There are added uncertainties and difficulties with respect to the employment of those veterans who have no established rights to particular jobs, or who prefer not to exercise those rights which they have.

The association has, therefore, adopted the following recommendations:

1. That the administration of all veteran employment should be placed immediately by Congress in a single agency with full authority to make such orders and regulations as may be necessary to carry out the intents and purposes of the Selective Service and Training Act, and any new legislation dealing with veteran employment rights. This is necessary to assure uniform procedure, to safeguard the veteran's employment rights, and to help make prompt determination of the employer's obligations.

2. That Congress clarify the provisions of the Selective Service and Training Act, either by amendment or new legislation, that will specify the full terms and conditions governing the reinstatement of employee veterans and the employment of nonemployee veterans. The following specific points need clarification:

- (a) By what rule shall we distinguish between a permanent peacetime employee and a temporary or war-expansion employee?

- (b) Shall a returning employee veteran supplant a permanent peacetime worker who has more years of service?

- (c) Has a returning veteran who was a temporary employee the same rights or lesser?

- (d) Shall seniority practices prevent making a job available to a veteran who never before had a job?

- (e) Shall a veteran be given credit for his time in the armed forces, as though that time had been spent in the service of the employer? And if so, shall he first serve a probationary period on the job?

- (f) Shall a disabled veteran have top priority in jobs regardless of all other rules?

I feel sure that the committee is fully aware of the confusion and controversy surrounding these and similar questions. There can be no doubt that they serve to retard the country's goal of maximum employment for veterans. The need for clarification cannot be stated in terms of too great urgency.

I am equally certain that American industry will enter most enthusiastically upon the fulfillment of its pledge to provide jobs for the returning veterans, as soon as these troublesome questions have been clarified by Congress and the responsible governmental agencies.

The CHAIRMAN. Thank you very much.

Mr. Walter?

Mr. WALTER. Yes. You stated that steps must be taken to protect property from damage caused by violence in labor disputes. Don't you think that is a local State matter rather than something with which the Federal Government should be concerned?

Mr. RANDALL. I am sure, Mr. Walter, that you are aware of the lengths to which Congress has gone in widening the doctrine of interstate commerce. If interstate commerce is wide enough to bring our labor relations within the power of Congress, it is wide enough to bring the protection of property within the power of Congress.

Mr. WALTER. Aren't you advocating a further extension of Government controls when most of us feel it is too highly centralized now?

Mr. RANDALL. I am not advocating any further extension of controls. I am simply saying that if it takes it over in part, it should take it over in whole.

Mr. WALTER. It seems to me that private property is a matter for the States.

Mr. RANDALL. I think I made my point. Congress probably knows that in these large industrial centers, the local forces are often totally unable to cope with mass violence.

Mr. ZIMMERMAN. Our States have tried to pass some laws and then the Supreme Court comes along and says you have not the power to do that, because you are interfering with a Federal law, the right to strike. If that picket line destroys my automobile, that is all right. If Mr. Walter goes out and destroys my automobile, they would have him in jail in 2 or 3 hours. You agree that there is a place for Government to come in here and do something?

Mr. RANDALL. I say where Government is in, they must go the whole distance. They must go the whole way, not part way.

Mr. ZIMMERMAN. The Government should try to see that labor is protected in their right, and I believe this. At the same time I think that management should be protected in its rights, and the public should be protected. That is the function of Government, that there be an arbiter or an umpire somewhere to sit in there and see that the right thing is done.

Mr. WORLEY. You are an expert on labor relations?

Mr. RANDALL. I disclaim that, sir.

Mr. WORLEY. Are you optimistic over the prospect of a favorable settlement in the Washington conference now going on?

Mr. RANDALL. I have no information, sir, that you have not. I am perfectly certain that the men have gone in with earnestness of purpose.

Mr. WORLEY. Suppose they reach a stalemate, what then?

Mr. RANDALL. We certainly are better off than we were in that there has been a quiet and peaceful period of discussion without anger for a period of time in which each may get the other's viewpoint. I think this is a good period of cooling off.

Mr. WORLEY. But what if nothing constructive comes from the conference?

Mr. RANDALL. I think Congressman Zimmerman addressed a question to Mr. Airey on this same line. I have never heard this subject discussed in the association. This is personal. I have the feeling that the thing which makes labor relations so acute at the present time is that all during the war Government has been on the bargaining side for labor. As soon as Government stops bargaining for labor, we will get somewhere. Industry has never been allowed to say "No." Once we have equality of bargaining, with the two forces sitting across the table without the third man in the ring on the other side, we will settle these questions.

Mr. WORLEY. You don't think you need a third man in the ring at all?

Mr. RANDALL. I do not.

Mr. ZIMMERMAN. You don't believe Government ought to be in there?

Mr. RANDALL. No, sir.

Mr. WORLEY. In any capacity?

Mr. RANDALL. No, sir.

Mr. ZIMMERMAN. I thought you recommended that the Government make some laws?

Mr. RANDALL. Well, I think the Congressman asked Mr. Wason what were the things that should be done. The lack of equality in bargaining comes from the lack of responsibility on the labor side. The lack of bargaining is on management's side and the excessive power is on the labor side. The thing for Government to do to restore equality of bargaining is to withdraw protection of labor when it violates a contract.

Mr. ZIMMERMAN. You have to change the law.

Mr. RANDALL. Exactly.

Mr. ZIMMERMAN. That is where Government has to step in.

Mr. RANDALL. Certainly, no one of us means to suggest that we are happy about the present labor laws. I think the finest thing Congress could do would be to overhaul the entire system of labor laws, into one code that a plain-minded fellow can read and understand and know that it is all in the same book.

The CHAIRMAN. I would like to ask you one question on the subject of veterans, just to get the reaction of the manufacturers. There has been some talk over the period of the last year and a half about a statute that would permit a veteran to join a union or not join a union; in other words, he could not be discriminated against because he did not belong to a union. Would you care to comment on that?

Mr. RANDALL. I think that ties into the whole subject of voluntarism. I think it is awfully important that every man, whether a veteran or not, be free to join or not to join a union, and to stay in or get out, as he may please.

The CHAIRMAN. I quite agree with the observation. As a matter of expediency—political expediency, if you please—that would not possibly be attainable right now. The question is whether or not a veteran should be given that preference because he had fought his country's battles.

Mr. RANDALL. I am no judge, sir, of political expediency, but I should certainly say it should be done for the veterans.

The CHAIRMAN. Thank you very much, Mr. Randall.

Mr. WASON. I believe you have something.

Mr. WASON. Mr. Chairman, may I supplement briefly, in reply to comment by Mr. Walter? He asked whether the Government should get out of the picture. Briefly, yes, out of controls; no, on regulations. Industry accepts regulation and offers no objection whatsoever, but it does not like to be choked as it is choked by many controls which have been discussed by Mr. Randall.

The CHAIRMAN. Let's not forget that all of these controls are war-time things. It was brought about because of the terrible pressure

on our country during the war. I do not think anybody wants price controls in peacetime at all. I think no sane person would advocate the continuation of these controls in peacetime.

Mr. WASON. It should be recognized, Congressman Zimmerman, that in January 1941 there were more than 10,000,000 unemployed all as the result of controls that prevented the investment of funds.

Mr. ZIMMERMAN. I would like for you to explain a little; I mean elucidate a little. You say 10,000,000 men out?

Mr. WASON. My information comes from the Economic Almanac.

Mr. ZIMMERMAN. What do you know about it?

Mr. WASON. This was in 1940.

Mr. ZIMMERMAN. I thought you said 1941.

Mr. WASON. I am sorry. It was 1940. The unemployment was greatly reduced in 1941.

Mr. ZIMMERMAN. In 1940 it was how many millions?

Mr. WASON. It was 10,000,000 in February.

Mr. ZIMMERMAN. That was due to what?

Mr. WASON. Largely due to controls which prevented investment.

Mr. ZIMMERMAN. What controls?

Mr. WASON. Such things as the SEC and other devices.

Mr. ZIMMERMAN. I don't think the SEC has been responsible for that.

Mr. WASON. Well, that is a long discussion, Congressman, and I would be happy to enter into it if the time permitted, and I am not using the time as an alibi.

Mr. ZIMMERMAN. Of course; I have lived a good while and I have lived through a period when business was operating without controls, and I know what happened. I have personal experience. We would have a pretty long debate, if that is the kind of controls you are talking about. It has some faults but there are a lot of virtues.

Mr. WASON. Congressman Worley asked a question that has some implications in it, and they ought to be cleared; and Mr. Airey did clear some of them. He asked if there would be malingering on the part of industry waiting to enjoy the benefits conferred by the recent tax bill. During the war 45,000 corporations paid excess profits taxes; 435,000 did not pay it. Therefore, the malingering would be confined to about 10 percent.

Mr. WORLEY. But that 10 percent had the biggest part of the contracts. Isn't that correct?

Mr. WASON. Yes, sir.

Mr. WORLEY. Therefore, when they slowed down or lingered, as you say, reconversion would be retarded if that is going on. Is it going on, or is it not, in your opinion?

Mr. WASON. To the best of my judgment and belief, and in my opinion, it is not, because such malingering on the part of industry would assist such industry's destruction by piling up losses. Their overhead is constant in every industry and its task must be to absorb that overhead, and it can best be absorbed by operating in as full a measure as is possible.

Mr. WORLEY. A minute ago, you said these restrictions had choked industry. It is my information that most industries have made at least a reasonable margin of profit during the war; am I correct or am I in error?

Mr. WASON. Secretary Patterson has made the statement that industry should be grateful for—I am not using his words, and I do not recall them—for the fact that it has not made unusual war profits.

Mr. WORLEY. Has your company lost any money? I do not mean to pry into your business affairs, but for an example: Have you lost any money as a result of these controls?

Mr. WASON. We think that we have.

Mr. WORLEY. Very much?

Mr. WASON. No, sir.

Mr. WORLEY. Do you think you would have made more without price controls? You would probably have made more dollars, but you couldn't buy as much with them.

Mr. WASON. Congressman Worley, you mean the war period by "recent years." We are not recommending nor did we recommend the elimination of price controls during the war and all the requirements of every Government organization were accepted by industry without objection, and regardless of the conflicting orders that came from different bureaus and different divisions of the same bureau—without complaint.

Mr. WORLEY. We want to see these controls removed just as soon as they can be removed without hurting you and one-hundred-and-thirty-odd-million other people.

Mr. WASON. I would like to specifically answer your question. Our earnings reached a peak in 1942, less in 1943, less in 1944, less in 1945, and unless controls are eliminated, they will be less in 1946.

Mr. ZIMMERMAN. They were still plenty big, weren't they, plenty large?

Mr. WASON. Our earnings?

Mr. ZIMMERMAN. Yes.

Mr. WASON. No, we do not think they are. Our labor rates have gone up about 70 percent on a direct hourly basis. And the dividends of the owners have gone up not in any manner whatsoever.

Mr. ZIMMERMAN. Have they kept on a par?

Mr. WASON. They are what they were in 1939, 1940, and so forth.

Mr. ZIMMERMAN. You are pretty lucky. I have not been so fortunate in some of my investments.

STATEMENT OF ROBERT WASON—Resumed

Mr. WASON. Mr. Chairman, with your permission, I should like to resume the stand to summarize the views of the National Association of Manufacturers in some 300 words.

Industry is now struggling to complete its reconversion. It is ready to go all out for civilian production when permitted to do so. Industry can't go all out so long as OPA prevents production by requiring losses in some instances and an over-all balancing of profits against losses in other instances.

OPA's unwillingness to permit profits often prevents production. Wages rise, production stands still, inflation results to the detriment of the total economy.

Government controls retard small business organizations first and large organizations last because size permits them to weather losses that cannot be taken by small businesses. The Price Administrator admits that production is the preventive to inflation. The Congress

supports him in his limitations on production. It is the judgment of 2,000 committeemen represented in our reconversion council, whose opinions are expressed in the documents read here this morning that all rationing and price controls should be eliminated not later than February 15 of the coming year.

It is their further judgment that the expanding production which would result from the freeing of the economy at that time would permit more easy and orderly settlement of labor-engagement differences that bedevil all of us at this time.

During the war, industry sold one customer—whether it be Army, Navy, Air Corps, or other of the military services. Now it must reconvert to thousands of civilian customers. The task of getting into peacetime manufacturing is equally as great as the task of tooling up for war.

You may recall that amortization of facilities was resisted for many months by Government officials when war began. Industry faces comparable resistances in its present attempts to reconvert to peace. Our reconversion council of the National Association of Manufacturers earnestly believes that everything your committee can do to permit and assist the free exchange of goods and services within the economy is in the interest of all people in all quadrants of the economy and our Nation in which they function.

This reconversion council of the National Association of Manufacturers thanks Mr. Colmer and all the gentlemen of your reconversion committee for the considerate and helpful treatment you have given us today.

The CHAIRMAN. Thank you, again, Mr. Wason, and on behalf of the committee I desire to express appreciation of the committee for your very able remarks and those of your associates, Mr. Airey and Mr. Randall.

Mr. WASON. Thank you, sir.

The CHAIRMAN. We are very grateful for your contribution. The committee will stand adjourned until further call.

(Whereupon, at 12:20 p. m., an adjournment was taken, subject to call.)

POSTWAR ECONOMIC POLICY AND PLANNING

WEDNESDAY, NOVEMBER 28, 1945

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POSTWAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met, pursuant to call, at 10:30 a. m., in room 1012, New House Office Building, Hon. Francis Walter (chairman pro tempore) presiding.

Present: Representatives Walter (chairman pro tempore), Reece, Worley, Murdock, Lynch, Simpson, Welch, Wolcott, and LeFevre. Also present: Marion B. Folsom, staff director.

Mr. WALTER. The meeting will come to order. Mr. Small of the Civilian Production Administration will make a statement. We appreciate your being here, Mr. Small.

STATEMENT OF JOHN D. SMALL, CIVILIAN PRODUCTION ADMINISTRATION

Mr. SMALL. Thank you, sir. I am delighted to be here. I will try to give you any information I can on this problem. I have given to you a prepared statement which is in substance the same statement that I made about a month ago before the House Judiciary Committee, who, as you know, went into this and have recently come out with their report.

The conditions are pretty much the same as we saw them at the time I submitted this report, a little darker perhaps than they were then, but this covers the field pretty well.

If you like, Mr. Chairman, I will be glad to go through this, summarizing it for you, rather than read it. It is quite a lengthy statement. I will be glad to answer any questions while I am doing it, or later.

Mr. WALTER. You just stated that conditions are perhaps darker than they were when you appeared before the Judiciary Committee. I think this committee would be interested in knowing what change in conditions caused you to make that statement.

Mr. SMALL. Labor troubles. The slowing down at various levels in the industrial chain due to labor difficulties in one plant which in turn stops the production of things going up the manufacturing chain, there and elsewhere, and that slows down their production.

Mr. WORLEY. Where is the fault, in your opinion, on labor's side or management's side, or both sides?

Mr. SMALL. Definitely on both sides. Back during the war period we had the same personalities involved in this problem as we have

now. We had pretty much the same problems but people were reasonable, they were sensible, they were flexible and they were in good humor. True, they had an incentive—the winning of the war—and that overrode anything else, and they were able to get together without too much difficulty and pull together and get out production. That is the only reason that we were able to get our war production in the volume that we did turn it out.

With the coming of VJ-day and the winning of the war there has been a logical change. People are weary and tired. Both management and labor people are tired. They have become more irritable, more quarrelsome, and many of them are no longer guided by common sense. They are guided by emotions to a greater degree than they were before. I know of instances where people 3 or 4 years ago would have settled their problems without any great to do, and now they get hysterical about them. I suppose that is the natural result of the ending of the war and a changed psychology. It is a great part of their problem.

Mr. WALTER. To what extent has reconversion been retarded by these labor disputes?

Mr. SMALL. It is not measurable in terms of percentage, Mr. Chairman. The early part of last month we came out with a report on reconversion which showed the progress the metal-working industries were making. It showed their actual production in September. It showed their forecast for October, November, and December and up until next June. The actual production in September was gratifying. It was greater than we had expected before VJ-day even. Their forecast for the succeeding months and for next June were based on a very simple condition, that during this period we would have some measure of industrial peace, some substantial measure of it, and as I say, would be able to get components and materials in adequate volume when they needed them.

Mr. WALTER. That is exactly what I mean. In other words, all the estimates as to production in the spring were based on the theory that labor and management would together try to bring about normal economic conditions quickly.

Mr. SMALL. That is right.

Mr. REECE. You made the statement, I believe, that labor and management had grown tired. Now unless I underestimate the situation they are not the only ones that have grown tired.

Mr. SMALL. I am tired, too.

Mr. REECE. The soldiers are tired. The consumers are tired. Everybody is tired, and with reference to percentage by which production has been slowing down, I think it is relatively unimportant. It is manifest in strikes, threat of strike, shut-downs and threat of shut-downs, fear that our whole production machinery is going to be thrown out of kilter and we are going to have chaos in this country. Is not that right?

Mr. SMALL. Well, I am a little more optimistic than that. I think "chaos" is far too strong a word. We are going to have undoubtedly, if these conditions continue, we are going to have a slowing down of production considerably below the goals we could have reached without them. Now I do not think that is going to lead to industrial chaos.

Mr. REECE. It has been suggested that I probably should have used

the words "considerable chaos." I had in mind the same thing you were describing in your more moderate and possibly less-tired manner, despite the very difficult position that you hold because you seem to be a person of calm disposition and I am sure of calm judgment. But to complete my statement, if we foresee such a condition about to develop, then it seems to me that it becomes the responsibility of all of us, both legislative and executive, to undertake to give some direction to this situation. So far I am unable to see where Congress has done anything and I am unable to see where the executive has done anything—and I am not referring to any particular individual in the executive department but simply as the executive arm of the Government—and I believe the people are beginning to feel very strongly that we have not yet accepted our responsibility in the situation and we are just sitting by watching a very serious situation develop in this country which they feel can be avoided and which I, myself, certainly hope can be avoided.

Mr. SMALL. We have ahead of us two dangers. We have the danger of inflation which would be ruinous to us all. We have the danger of deflation which would mean tremendous unemployment and needless suffering.

In one way or another we have got to choose a path that is between those, between inflation and deflation. The surest and only cure that I know for inflation is production. If we can get goods out in volume on the shelves, we are not going to have any inflation and the sooner we get about it the better.

Mr. WORLEY. How do you propose to get about it with management and labor having their difficulties which result in little or no production? How would you suggest that it be done?

Mr. SMALL. That is one way you are putting me on the spot because it is a terrifically complicated problem. You have got a lot of legislation up here now on the subject which attacks it from a good many angles. The better way to solve this thing, if it is possible to solve it, and I am sure that it is, is the way in which we got along during the war period. Now we had a lot of people during the war that you gentlemen probably never heard of working out of the War Production Board, who got in on these labor disputes and settled them before they became disputes. They got to the root of the problem, got to the people and got them together, before their emotions were aroused, before they had adopted a set position, and a great deal of the smoothness with which things went along was caused—was due to just that very thing.

Mr. WORLEY. Wasn't the main thing because we were engaged in the most dangerous war ever?

Mr. SMALL. Certainly. You had a single objective that everybody was aiming for. This is more serious now except for loss of life.

Mr. WORLEY. It is more serious than during the war period. What is your answer to that? Here we have a conference going on between labor and management. According to my information I am afraid it is doomed to failure. Do you agree?

Mr. SMALL. I am afraid the results are not going to be very good.

Mr. WORLEY. If they come out of this conference with nothing whatever accomplished, then what?

Mr. SMALL. Then the Executive and Congress have got to act.

Mr. WORLEY. How? Would you advocate the Government—

Mr. WELCH. Why are you taking this pessimistic view, that it is due to fail?

Mr. WORLEY. Well, all the signs point to that.

Mr. WELCH. Well, there are always a lot of pessimists. You should take an optimistic view. You might as well be optimistic as pessimistic. It does not cost any more.

Mr. WALTER. Gentlemen, I think we have gone quite far afield.

Mr. WELCH. No, we have not, Mr. Chairman.

Mr. WALTER. Well, we will get to that as soon as we have finished this statement. Do you care to summarize the statement you have prepared?

Mr. REECE. Mr. Chairman. In any event, Mr. Small, might it not be well for this to go in the record as your statement and then add any summary which you think advisable to it?

Mr. WALTER. Yes. Without objection the statement will be inserted in the record at this point.

Mr. REECE. In full.

Mr. WALTER. Yes.

(The prepared statement in full, referred to, submitted by Mr. Small, is as follows:)

About a month ago, I outlined to the House Judiciary Committee the need for an extension beyond the end of the year of title III of the Second War Powers Act. As the need for this legislation has not changed materially, I propose to make you substantially the same statement as I made to that committee.

Title III is the authority under which the WPB has exercised the priorities and allocations functions during the war. I believe the most helpful thing I can do will be to explain to you the functions which we are still carrying on under this authority and point out those for which we anticipate there will still be a need after the end of the year.

Last spring just before and after VE-day we in the WPB were under considerable pressure from certain segments of industry to continue many of our controls, on the theory that it would cause endless confusion and retard reconversion if we took them off. We did not agree with them. It was our opinion then, as it is now, that reconversion would be best aided by a lifting of control orders as rapidly as it could be safely done. We followed this policy and I think the results have demonstrated that we were right. I should like to read a paragraph from Mr. Krug's report on War Production and Reconversion, of May 19, 1945.

"Desirable though it may be to attempt to prevent temporary economic dislocations, the experience of those who have lived with these controls during the war clearly indicates that the controls are not suited to that job. Moreover, reason and history indicate that in any readjustment from a war to a peacetime economy, temporary dislocations are inevitable. We must not be stampeded by such dislocations into elaborate controls or special dispensations. Our economy is a jigsaw pattern of interlocking buyers and sellers, producers and consumers. The pieces of the jigsaw will move into place best if we give people scope and leeway—with a minimum of rules, regulations, and production controls."

That may sound like a strange statement for me to read when I am here discussing a possible extension of our statutory authority, but I do not believe it is. Our thinking is the same today as it was then.

Early last spring the WPB had outstanding about 650 basic orders and schedules. The production and distribution machinery of the United States was pretty well enmeshed with our controls in order to assure the flow of materials to military and essential civilian needs. By the end of May, shortly after VE-day, approximately 200 of these basic orders and schedules had been lifted. By the end of August, after the Japanese had surrendered, another 300 orders had been lifted, and by the first of November we will have outstanding less than 75 orders and schedules.

The timing of removal of the individual controls has been the result of careful study by our experienced men attempting to appraise in advance the effects of

the removal of particular orders, taking into account the supply and demand situation for the materials involved. We have had committees studying these problems and working with the other interested agencies since the summer of 1944, so that when VE-day and VJ-day arrived we were prepared to take the action upon which seemed to us appropriate.

Between VE-day and VJ-day, as rapidly as military orders were cancelled, facilities were converted to civilian production, and raw materials were quickly diverted to civilian uses. Reconversion was proceeding at a rapid rate and increasing supplies of most materials and products made it appear that only a few remaining controls would be needed beyond the end of the year. Since VJ-day, however, there has been a definite slowing down in the reconversion process, and numerous uncertainties in the picture make it impossible for me to predict just how far beyond the first of the year some of these controls will be needed if we are to avoid additional serious dislocations in our economy.

While reconversion is under way, therefore, and in some cases is moving very smoothly, we are not yet by any means wholly out of the woods on materials shortages. It is for this reason that we still retain certain controls and believe that a few of them, out of the many hundreds which we had during active hostilities, should be continued beyond the end of the year. In order that the Congress can best determine whether this authority should be continued, I am explaining briefly the controls we now have and the types of purposes for which they may be needed into 1946. Speaking for our agency, we would propose in no case to exercise such authority beyond the time during which the need is clearly evident and furthermore to exercise it as sparingly as possible.

Now let me try to outline the purposes for which we believe the Civilian Production Administration may need to exercise the powers created by the Second War Powers Act.

ASSURANCE OF MILITARY SUPPLIES

While the volume of military procurement is now extremely small, compared with its pre-VJ-day level, there are still considerable requirements for our forces of occupation overseas and for servicemen pending demobilization. It is of first importance that there be no delay in the continued supply of these needs. While in most cases no trouble is now experienced in obtaining them on the open market, it would seem desirable that the priorities authority be maintained in reserve to make certain of their fulfillment.

EXECUTIVE ORDER

The Executive order of October 4, which established Civilian Production Administration, sets forth six general purposes:

1. Expand the production of materials which are in short supply;
2. Limit the manufacture of products for which materials or facilities are insufficient;
3. Control the accumulation of inventories so as to avoid speculative hoarding and unbalanced distribution which would curtail total production;
4. Grant priority assistance to break bottlenecks which would impede the reconversion process;
5. Facilitate the fulfillment of relief and other essential export programs;
6. Allocate scarce materials and facilities necessary for the production of low-priced items essential to the continued success of the stabilization program of the Federal Government.

I want to take these up in order and illustrate under each heading some of the problems which we now have and some which will still exist after January 1, 1946.

(1) Expand production of materials in short supply

This is the type of activity through which Civilian Production Administration can make its greatest contribution to rapid reconversion and the termination of all wartime controls. As has been frequently stated, all-out production is the quickest way to end the necessity not only for our controls, but for price controls as well. Certain bottleneck materials, many of them imported, and others domestically produced but now scarce because of conditions arising out of the war, will be the limiting factors in increasing industrial production rapidly to all-out levels. Here are some examples:

(a) *Tin*.—This essential material is entirely imported, and is needed not only for food preservation in tin cans, but also in small but vital quantities in every variety of reconversion production. Speedy restoration of normal supplies is dependent on delivery of equipment items, many of which have very long production cycles. By a vigorous expediting campaign, including the judicious use of priorities authority, we have diverted into tin mining such standardized items as power shovels and tractors, and we hope to speed up the delivery of heavy dredges by 7 or 8 months from the original schedule which ran through June 1947. In this type of program, it is impossible to predict the specific bottlenecks which may delay the entire job. We have overcome troubles so far with clutches, with 50-cycle motors, with electric welders, and with many other types of materials and components.

(b) *Building materials*.—The 1946 construction program, especially in housing, is looked upon to play a major part in providing full employment and a demand for many types of equipment and supplies. The rate at which construction can be speeded up depends in large measure on achieving increased supplies of such materials as bricks, structural clay tile, clay sewer pipe, cast iron soil pipe, and lumber. While manpower is the main problem in increasing these supplies, situations often arise in which speedier delivery of equipment can substantially improve the production picture. The assurance of adequate truck and tire supplies in the forests, for example, is an important element in full lumber production. We are keeping a close watch on these industries, and feel it essential that we be in a position, if necessary, to speed up equipment deliveries so that no time is lost in getting them ready to play their full part in the reconversion construction program.

(c) *Coal mining machinery*.—This is a vital factor in maintaining and expanding output of bituminous coal east of the Mississippi. The shortage of this basic material, which has been intensified by the recent strike, threatens supplies of steel and manufactured gas, as well as direct fuel needs for many other industries and general civilian health and comfort. We have engaged on an intensive campaign to stimulate the production of specialized underground mining machinery and to assure the supply of tractors and shovels for the highly productive strip mining operations. This campaign involves priority actions both to speed up machinery production and to channel equipment into the most productive mines. We believe this program should be continued as long as it can help meet the coal deficit for the coal year ending next April 30.

(d) *Streptomycin*.—This new "wonder drug" conquers many infections which do not respond to penicillin or the sulfa compounds. While its development came too late to permit its use on the battlefield, the lives of hundreds of wounded veterans can be saved if large scale production can be secured quickly. For many months, the needs for treatment of injured veterans alone will exceed possible production. In full cooperation with the armed services and the pharmaceutical industry, the War Production Board is doing everything possible to expedite completion of new plants for streptomycin production. It has been necessary in a considerable number of instances to divert component and equipment items into this program from less essential uses in order to avoid construction delays of many weeks or months.

In all these cases, our principal reliance is on voluntary action by the industries concerned. On occasion, however, priority action has proved necessary either because the supplier is bound by contracts to less essential customers or because he is unwilling to accept the order. The possession of priority authority, even if it is not used, is often a vital factor in obtaining full voluntary cooperation.

(2) *Limit the use of scarce materials*

Since VE-day, War Production Board has eliminated all prohibitions on the production of end products as such. In the case of a few acutely scarce materials, however, it has been and will continue necessary to keep certain limitations on their use. In all cases, these controls are designed to spread available supplies thinly so as to cover all essential uses, and thereby prevent the shortages from stopping reconversion production. Here are some examples:

(a) *Tin*.—Until imported supplies are again fully available, the lifting of controls over the use of tin would result in a rapid dissipation of stocks and a period of dearth in which there would be insufficient supplies either for essential food preservation or for minimum industrial production needs. The present

stock pile of about 30,000 tons can be made to last beyond the end of 1946 by careful husbanding and constant effort to increase imports. Without control, this small stock could be fully dissipated within a few months. Our tin conservation order permits the use of tin wherever it is clearly necessary but prevents wasteful or nonessential use. By prescribing lighter coatings and prohibiting tinplate where it is not needed, we have reduced the use of tin in the canning industry from about 42,000 tons in 1941 to an expected figure of 24,000 tons in 1946. Strict conservation has brought the use of tin in automobiles from almost 4 pounds per car before the war to less than 2 pounds today. As increasing supplies come in from abroad, we will continue the policy of gradual relaxation of this control. It would be dangerous in the extreme to discontinue this control before supplies are adequate.

(b) *Lead*.—Lead is another material of very widespread use now in short supply. While most of our lead is produced in this country, domestic supplies must be heavily supplemented by imports. The basic uses of lead include storage batteries, ethyl gasoline, paint, cable covering, chemicals, collapsible tubes, bearings,terne plate, free turning brass, etc. The present estimate of 1946 supplies is about 84,000 tons, of which 100,000 tons will be imported. If our present restrictions on the use of lead remain in effect, the demand will be 850,000 to 880,000 tons, while if these restrictions were removed the demand would probably rise as high as 1,100,000 tons. Meanwhile, stocks have fallen from a high point at the beginning of 1943 of 276,000 tons to an estimated figure at January 1, 1946 of only 88,000 tons. We can obviously no longer depend on the use of stocks to meet current deficits.

There is no relief in sight until additional new production is available from sources in the Far East, the Mediterranean, and eastern Europe. Mounting European requirements will make imports into this country increasingly difficult, especially as the primary foreign producing areas are not under American control.

(c) *Crude rubber*.—The tremendous new American synthetic rubber industry places us in the happy position of having no problem on total supplies of rubber. However, crude rubber comes wholly from foreign sources and it will take at least a year and probably longer for Far Eastern supplies to be restored to normal. In 1945 crude rubber imports were only 134,000 long tons, compared with 1,029,000 tons in 1941. Until more nearly normal supplies are available, crude rubber must continue to be allocated to uses for which synthetics cannot serve. Thus heavy truck and bus tires require a high proportion of crude rubber to obtain satisfactory wearing qualities. In other uses, such as passenger tires, the proportion of crude rubber can be made very low without a substantial sacrifice in quality. As imported supplies increase, the controls will be gradually relaxed to permit larger proportions of crude and additional uses. With present uncertainties in the supply areas, especially the Dutch Indies, and with uncertainty as to the precise United States share in future output, the safe date for the abandonment of control cannot yet be predicted.

(d) *Burlap*.—Burlap is another material on which this country is wholly dependent on foreign sources. Inadequate supplies of coal and food in India have seriously curtailed production. Control is exercised to channel the scarce supplies into agricultural bagging in order to prevent the loss of perishable foods. Until the combined supply of burlap and cotton bagging materials becomes adequate, the absence of such control might easily lead to a diversion of this material into furniture, automobiles, rugs, linoleum, and other uses where satisfactory substitutes are easily available.

Other materials now expected to be so scarce after the end of 1945 as to need continuing control over and uses include molasses, cordage fibers, antimony, quinidine and resin. The future outlook on imported materials is especially uncertain. It is not always possible to predict which materials may require such control. Thus, the recent coal strike, curtailing new supplies when stocks were already at an unprecedentedly low level because of the war, necessitated a temporary new control to increase the production of gas utilities of water gas made from coke and oil, and to reduce the utilities' demand for high-volatile coal. This action was part of a cooperative program between WPB and the Solid Fuels Administration designed to protect minimum public utility, transportation, and hospital needs and to get necessary coal stocks to Great Lakes points before the winter season.

(3) *Inventory control*

Another purpose for which I would suppose the Congress would want the allocation power extended is to permit the continuance of inventory controls to prevent hoarding or preemptive buying of materials during the reconversion period.

It is difficult to say just how long such a control is needed. I am not an economist, but the history as I understand it after the last war, plus the obvious motives on which business operates, would seem to indicate pretty clearly that whenever there is a possibility of higher prices there is an incentive for companies all along the line to stock up on goods which they will need in their operations. You will recall the disastrous cycle of sharp inflation and deflation in the years 1919-21, in which first the accumulation and later the unloading of excessive inventories played an important part. The National Association of Purchasing Agents has reported to us within a month current conditions which appear to threaten a repetition of the post-World War I catastrophe. For this reason, I believe that there is a need for inventory controls at this time and that this need will exist beyond the end of the year. The only sure way of making inventory controls unnecessary seems to me to be an increased supply of goods brought about through continued and increased production.

Apart from its general effect on economic stabilization, the hoarding of scarce materials by some producers deprives others of an opportunity to put those materials into employment-creating use. Such hoarding is likely to impinge with particular severity on small business concerns lacking the resources to compete effectively in a buyer's scramble. It has been and will continue to be a major element of War Production Board and Civilian Production Administration policy to minimize such scrambles, hoarding, or preemptive buying.

We have consolidated our manufacturing inventory limitations in a single document, Priorities Regulation 32, which is reviewed semimonthly to remove from control materials no longer scarce and to tighten control on other materials where needed. We also expect to consolidate and strengthen existing inventory controls over distributors. Enforcement of these controls will be the principal responsibility of our field compliance force of 350 men.

(4) *Priority assistance to break bottlenecks which impede the reconversion process*

Our primary aim in handling bottleneck items is to obtain the most rapid possible increase in their output so that industry may proceed without fear of material shortages. Until this objective is achieved, however, it has been our experience that it is important to be able to step in with an occasional use of the priority authority in order to break specific reconversion production bottlenecks or to assure minimum needed supplies to small plants, particularly those operated by veterans. On the whole, industry is doing a fine job in distributing 28, which is used for breaking reconversion bottlenecks, we have had thus far scarce supplies equitably among consumers. Under our Priorities Regulation a gratifying small volume of applications. Since some material and component shortages will persist well into 1946, we feel it desirable to maintain in reserve, for very sparing use, the authority to break occasional bottlenecks and to relieve specific hardship situations.

A few examples of the use of such bottleneck breaking authority during the past few months will indicate the type of purpose for which we feel it may be needed during the early part of next year.

In one instance, a large automobile axle plant was being held up because of failure to obtain wooden floor blocks. This delay threatened reconversion and reemployment in a number of assembly plants, involving tens of thousands of jobs. The assignment of a C rating to this small quantity of material avoided a serious delay in reconversion progress.

In another case, a pilot boat had to be removed from service in one of our most congested eastern ports with a large volume of war traffic, owing to the break-down of a generator set and the wearing out of a special type storage battery. Available suppliers were contacted and the urgency of other orders was ascertained. It proved possible to expedite the delivery of the battery without a priority, but a rating had to be assigned to assure early delivery of the generator set. By these means, the boat was returned to service in a few weeks.

rather than the period of several months which would otherwise have been lost.

Similar action has also been used in obtaining rapid delivery of X-ray equipment for military and veterans' hospitals. Another group of cases involves veterans returning to business. In one such case, a veteran returning to his prewar business of producing electric fans was unable to get delivery on the bottleneck motors until well into next year. In this instance, it was possible to find an alternate supplier to give early delivery without using a formal priority. In another instance, a veteran returning to the photographic business needed \$300 worth of drying machinery to replace worn out equipment. A preference rating under Priority Regulation 28 enabled him to resume business many months earlier than would otherwise have been possible. Such spot priority assistance is also occasionally needed in emergencies to prevent break-down in service of public utilities, food processing plants, or other basic services. In many such industries, maintenance has been starved during the war and delivery times on replacements are extended far beyond normal. This type of situation will in due course rectify itself as production is stepped up, but the authority for emergency priority action still appears necessary for some months.

It should be reemphasized that Priorities Regulation 28 was not intended, and will not be used, as a substitute for individual self-reliance and resourcefulness. We do not want to encourage industry to come to the Government for priorities when the exercise of their own initiative would enable them to satisfy their needs. Applications are rigorously screened and are approved only where the need is demonstrated beyond question. The great majority of the cases thus far approved involve small quantities of materials to be used in small manufacturing plants. The exercise of this authority is sparing in the extreme and is maintained only to adjust those few serious inequities which are inevitable in this transitional period of materials shortage. As production grows, the need for this instrument will disappear and its use will be self-liquidating.

(5) The fulfillment of relief and other essential export programs

Through cooperative arrangements with the Foreign Economic Administration (now the Office of International Trade Operations, Commerce Department), the War Production Board has taken steps to prevent the undue drain abroad of materials or products in short supply in this country. Such action will be continued under the Civilian Production Administration. In certain types of cases, however, positive assistance must be given to exports to fulfill international commitments or to obtain supplies from abroad which are vital to reconversion.

Certain crucial import programs cannot be carried through without incentive trade goods and necessary production equipment. These programs include tin, crude rubber, manila fiber, fats and oils, quinine and quinidine, and other products. In many such cases, money alone is no inducement to the foreign production; it must be supplemented by goods such as textiles, household utensils, bicycles, small hand tools, etc. Restoration of production requires prompt delivery of such items as heavy dredges, transportation equipment, tractors, power shovels, machetes, and the like. Since the affected foreign areas are often not long-run postwar markets, industry is sometimes reluctant to provide supplies without Government action. In such cases, the existence of the priorities authority, which is used only when needed, makes it possible to insure speedy delivery of these materials and to obtain the most rapid possible increase in these important reconversion supplies.

Assurance of minimum supplies for relief and rehabilitation in war-damaged areas is a matter of high public policy repeatedly reaffirmed by the President. Such requirements include not only supplies for UNRRA, but also for the European paying countries, such as Belgium, Holland, and France, and for the barest minimum needs of the Philippine Islands, China, and the Netherlands Indies. The relief programs include textiles and clothing, hospital equipment and medical supplies, coal-mining machinery, transportation repair parts, and certain types of factory equipment. Here, too, the affected areas are often not sufficiently attractive as long-run postwar markets to be assured of supplies without priorities assistance.

Priorities assistance has also occasionally been found necessary to meet other essential export requirements. For example, it was recently necessary to obtain some equipment for a butter plant in New Zealand to keep up the flow of butter to our forces of occupation in the Pacific areas. In a number of countries, the packing of meat and other food products, some of which is used by our Army overseas, is dependent on tin plate supplied from this country.

(6) *Allocation for production of low-priced items essential to the stabilization program*

As a part of the general stabilization program, the War Production Board has worked with the Office of Price Administration in developing the fourth quarter low end clothing programs. It is our sincere hope that production will be sufficiently increased by the end of the year so that continued action of this type will no longer be needed and that ample supplies of low-priced clothing will again be flowing into retail channels on a free market basis. At this time, it is too early to predict accurately the first quarter production and distribution situation. Should it be determined necessary to continue these programs beyond the end of the year, the Civilian Production Administration should have the necessary authority to channel scarce fabrics into the hands of low-cost clothing manufacturers and to distributors of low-cost piece goods for resale.

Mr. SMALL. The Second War Powers Act is the real weapon with which the War Production Board and the Civilian Production Administration is able to accomplish its task. The use of the title, the use of the powers under the title, I believe the War Production Board and certainly the Civilian Production Administration since we have been in, have used sparingly, as sparingly as they could, and the policy still remains to use them sparingly for so long as they exist.

Last spring we had in the War Production Board about 650 orders and schedules. As a matter of fact we had the whole economy of the country tied up by control and regulations. We had to. If we had not, we would not have gotten materials and products flowing to the places where they had to go. I think the thing worked out fairly well. We did get the production. We were able to meet emergencies during that period without disrupting the flow to other things. I will give you a typical example. Before the invasion in Normandy there was a terrific demand for additional landing craft. That program hit across the whole economy here. It bothered everything. It was going to upset the whole picture in one way or another. By judicious handling of the powers we had, we were able to accomplish the landing program, meet the goals we had to have, and still accomplish everything else that we did have to accomplish. To an engineer looking back at it it was an unbelievable performance but it was done.

We had, as I said, about 650 orders at the beginning of this year. We had at the peak of our personnel about 23,000 people involved in this thing either here in Washington or in the field. By VJ-day we dropped the number of outstanding orders very substantially. We had also dropped in personnel. We had dropped out of the 650 orders by VJ-day 500, 500 had been eliminated, showing that we were giving up these powers as rapidly as we felt we could. As of today we have about 50 orders outstanding, including about 20 schedules which were separate bits of the orders. We have gone down from 650 to about 70 controls of that kind. We dropped from 23,000 people at the peak to 11,500 at VJ-day. We are down to about 3,500 as of today and we will be down to 2,100 as of December 31.

In other words, both personnel-wise and by specific orders that we have in force we have demonstrated that we are trying to set the economy free wherever we can do so without chaos, wherever we can do so without putting obstacles in the way of conversion that would be extremely serious and creating conditions that would greatly upset reconversion.

We have removed those controls by the thinking of a great many men who are expert in the particular materials that are short, and

who are experts in the method of handling the materials you get, the thin supplies spread thinly and equitably. The timing of the removal of the controls has been open to a very considerable amount of criticism. Back last year and early this year, a great many people were screaming to high Heaven that we were going to hold on to these controls forever, that we were going to regiment industry. When the time came to lift these orders—in our judgment safely lift them—people all over the place reversed themselves: "You ought to lift all the orders but don't lift the one that affects me. You ought to give up priorities, but let me continue to have priorities so I can ride the gravy train."

That psychology has been very clear as we have gone along during the last 7 or 8 months.

Mr. LYNCH. That applies to taxes, too.

Mr. SMALL. That is human nature.

Mr. LYNCH. That is right.

Mr. SMALL. We set the policy and told the Congress of our policies repeatedly, that it is our intention to lift these controls just as rapidly as we can without really interfering with reconversion. In doing it we take some risks, but we do not take a risk that we think is too serious. We will err on the side of lifting the control rather than err on the side of holding on to the control.

Mr. WALTER. Don't you think that all controls can be removed by June 30 next year?

Mr. SMALL. I am afraid not, unfortunately, Mr. Chairman. I am very certain by June 30 next year you will find conditions are such that in your judgment, or at least if I were sitting in your seat, in my judgment, at that time it would be very unwise to lift, for example, the control over tin. That just simply is not going to be possible, there is not enough tin to permit unrestricted use of it.

Mr. WALTER. Well, by that time it will be evident to everyone just where the shortages are.

Mr. SMALL. That is on the individual materials.

Mr. WALTER. Yes.

Mr. SMALL. Well, no, not quite, because I would say today that steel is in a pretty good position. We are still short of some forms of steel. Production is coming up. The pipe line is being filled and we are getting steel spread around pretty well. The number of requests that we get in for help on steel is not great. But let there be a coal strike or a steel strike and you have immediately got a far worse condition than we had at any time during the war.

Mr. WORLEY. Do you anticipate any such strikes?

Mr. SMALL. Speaking as a fellow who reads the newspaper, I would say they are under discussion. Whether they will come about or not I could not prophesy.

Mr. WORLEY. That will slow down our reconversion even more so, will it not?

Mr. LYNCH. What do you mean by "reconversion"?

Mr. SMALL. Reconversion is getting back our industrial plant from its use on direct war or war-supporting industries into purely civilian production in great part. There is still some war-supporting that goes on. Strictly speaking, reconversion applies to a plant which converted from washing machines to guns or tanks or whatever. It has now returned to all-out production of washing machines or some-

thing else. That is not 100 percent true, but many, many plants were working on war goods; for example, I will give you one that is quite simple to understand: the textile mills. They were producing textiles. They are continuing to produce textiles. You say we have got no reconversion problem. On the contrary, the fabrics that they used in special types of uniforms required adjustment of the looms to a degree that it has taken us, from the time of cutting back from military contract, about 4 months to get into the production of civilian-type fabrics. That is almost as much reconversion as it is to change over an automobile plant from tanks to automobiles.

Mr. LYNCH. Do you mean to say that it takes 4 months to turn textile fabrics back to civilian production?

Mr. SMALL. No, not all, but some of them.

Mr. LYNCH. I think the testimony has been that not more than 15 percent of the industry of the country has to have real reconversion. That is the reason why I asked you before what you meant by reconversion. I think that is the most currently misused word that we have today. Don't you think that the majority of business in this country is fit now to proceed in their own lines of they care to go?

Mr. SMALL. No; not the majority. I think, Mr. Congressman, that a very substantial portion is. Others are almost ready. They have been adjusting their lines, getting tools out, equipment out, stocks of other things out and new stuff in; but reconversion was going along picking up speed much better than we had ever dared hope between VE-day and VJ-day; and by VJ-day, late in July and August, the readjustment of the resources that were released into production of civilian things was proceeding at a much faster pace than any of us had hoped. That pace has now slowed down.

Mr. LYNCH. That has slowed down in large part, especially in the textile supply, because of the repeal of the excess-profits tax; that has caused them to keep skeleton forces, and they won't go into production until after the first of the year.

Mr. SMALL. No; the figures do not quite bear that out. The production of textiles, cotton textiles, has been dropping steadily for 2 years. That has been due to dropping of a number of workers. Many have gone to Selective Service, many have gone to war plants, and many of them may have gone because of selectivity on the part of the mills releasing people. In rayon, our production is above—it is about three times—what it was prewar; and it is maintaining its position. On woolens, it is going up; and it is well above what it was 6 months ago.

Mr. LYNCH. Well, the general impression seems to me in the community from which I come, that is New York, that all these firms are not manufacturing and will not manufacture until after the first of the year because of the repeal of the excess profits taxes. They have made enough money for this year and next year with the lower taxes they will start in and take orders for next year. They won't even take orders in New York now.

Mr. SMALL. Well, it is a good, simple slogan to use that, as we have used many simple slogans in political campaigns, which does not mean that it is true. We have made an investigation of textile mills because that is the first place where slowing down or withholding as we call it, for tax purposes, will show up. We find that the inventories

of finished textiles in the mills is less than 2 weeks as compared with 6 to 8 weeks prewar. I think they are running on a low inventory. I think some mills are withholding for tax reasons, but I do not believe it is substantial. We have gone into the converters, the next level up from the mill where they take the goods and print and color them. We have investigated a number of the converters and we find that their inventories of finished goods are a month or less. Considering the number of types of fabrics that they have got, the choice of fabrics they offer, I think it is a pretty good record. It is far less than in prewar. The indication is that there are probably more converters withholding for tax reasons than there are mills, but in neither instance is it a serious threat to our clothing program. There is enough fire behind the smoke which you are talking about to give it some semblance of truth, but it is not the real reason why we are having trouble with clothing. The real reason is that in spite of the fact that textile production is either close to or in some cases as in the case of woollens, above the past production, the demand is simply enormous. The people have just got to spend their money. They want clothes. Now we instituted some time ago—you are all familiar with the fact that low-cost clothing has not been on the shelves of the stores for many, many months. It has been a great hardship to the little people—the housewives and small children. You are beginning to see, if you will read the ads—and I recommend to you that you do read the ads—you are beginning to see \$1.98 dresses for children, \$3.98 and \$5.98 dresses for women. You are beginning to see shorts at \$0.85. I have not seen any shorts advertised under \$2.50 or \$3 for a long time. But you are beginning to see these things coming.

Now, after all, this program of throwing cloth into the low-cost brackets, into suits that wholesale below \$21, into women's dresses that wholesale at \$5.98 and below, only really started after VJ-day because we did not have enough cloth before that. We did start after VJ-day. It takes time to get the cloth in the mills to the converter, to the maker of the garment, to the store. The shelves are empty of this particular kind of stuff. You have got to fill that pipe line, but there is a trickle beginning. Week by week and month by month I know you are going to see more low-cost garments on the shelves.

Mr. WALTER. Couldn't the Civilian Production Administration do something to alleviate that condition by directing that materials go to companies manufacturing low-cost garments?

Mr. SMALL. That is exactly what we have done. Take the case of woollens, for example. We have directed 40 million yards of wools and worsteds out of a total supply for this quarter of around 100 to 110 million into the very class of garment that I am talking about.

Now, we are getting results on that, but the demand is so terrific that the minute the stuff hits the stores it is sopped right up. Therefore, you go into the store the next day and they have nothing there, but progress is being made on it. It is not as much as I would like. You cannot cure a deficiency like that overnight. It is impossible.

Mr. LYNCH. How does the new type of goods compare in quality with material of the same type prewar?

Mr. SMALL. You mean in the garments?

Mr. LYNCH. Yes.

Mr. SMALL. I think on the whole it is down-graded.

Mr. REECE. That is only natural.

Mr. WORLEY. The price is about the same. Well, Mr. Lynch brought out a good point. Some concerns on account of the excess-profit brackets are waiting until next year in order to produce. Aren't they running a risk of pretty strong competition from somebody else in case they take that action?

Mr. SMALL. Yes; but in the garment trade that is not too great because the demand is so overwhelming I think they can sell anything after the turn of the year they could sell today.

Mr. REECE. In line with the wise counsel that our friend Mr. Welch put out a while ago about being too pessimistic, I think it applies with reference to the comments on the subject matter now under discussion, which is that it is unfortunate for us to disseminate that view too widely unless there is sound ground for it. As you have said, there may, in certain instances, be some basis for it, but if the over-all situation does not justify that observation then I question the advisability of placing too much emphasis upon it.

Mr. WORLEY. You are of the opinion then, Mr. Small, that relatively few concerns are doing that; is that right?

Mr. SMALL. Out of the many thousands involved relatively few are doing it, and to show you how these generalities disappear when you get into specifics there are a very great many firms whose fiscal year does not end at the end of the year. My belief is—I will put it this way—after the compliance investigation—we have had three or four hundred men going around and digging into this and getting reports and showing the exact inventories of these people, my opinion is that the withholding at the mill and converter level has not been of substantial effect. It is self-curative in any event.

Mr. LYNCH. Will you yield a moment?

Mr. WORLEY. Yes.

Mr. LYNCH. Besides the mill and converter you have the garment makers. Before it gets down to the actual making of the garment you have three or four steps, haven't you?

Mr. SMALL. The mill weaves the fabric. In the case of gray goods a converter buys the fabric from the mill and sends the fabric to a dyer and printer and tells him how they want it dyed and printed. They bring the fabric back from the dyer and printer and turn it over to the garment maker, who makes the clothes.

Mr. LYNCH. Now before it gets into the hands of the garment maker where labor is, you have the manufacturer and the converter. Now how many cases did you people examine in New York City?

Mr. SMALL. On which level?

Mr. LYNCH. On the level of the converter.

Mr. SMALL. I think about—I would have to check this, Mr. Congressman, but I think 27 or 30.

Mr. LYNCH. How many converters are there in New York?

Mr. SMALL. There are an awful lot but if you check the substantial ones, the larger ones, you get a pretty clear picture. They are the ones who really hurt you, not the little fellow.

Mr. LYNCH. You mean to say that your examination of 27 or 30—how many did you find that were withholding?

Mr. SMALL. My recollection is that we found two out of the complete list who could be criticized for having too much on hand of

finished goods. Then when you began to dig down into that you found out there was usually a reason why that was; it was a cloth which they had made for some Army or Navy use that they could not sell to civilians. For example, a Melton for overcoats and civilians do not want it because it costs too much.

Mr. LYNCH. Only two could be criticized, and those two had an explanation? Is that what you said?

Mr. SMALL. Only two were really open to criticism, and we found none so far that we could take into court, which is the touchstone that we have to use.

Now I have no doubt that there are a large number of converters, particularly little fellows who are on a converter level, including the dyer and printer, who may be withholding. In addition to that, as you probably know, coming from New York, you have the situation complicated by the dyer and printer strike up there. That is causing a lot of goods to be held because they are frozen. The unions won't let them go in or out. They are frozen where they are.

Mr. LYNCH. How long has the dyers and printers strike been going on?

Mr. SMALL. It has been going on a good many weeks.

Mr. LYNCH. Not enough to stop production up there.

Mr. SMALL. Stop production where?

Mr. LYNCH. In New York.

Mr. SMALL. Oh no; that is only an area up in the northeast, but a very substantial area. It has definitely affected our ability to make men's suits because of the inability to get linings.

Mr. LYNCH. Would you say that the shortage in these woolens and clothing materials generally is due not to the withholding by firms but rather by the action of labor?

Mr. SMALL. I would say that the shortage of fabrics throughout the country is due to the fact that the demand is five or six times the possible supply.

Mr. LYNCH. Of course we all know that because it is my information that manufacturers are not manufacturing for one reason or another and for no reason as far as labor is concerned. They are simply not manufacturing, either because they claim a ruling won't let them make money or else they are withholding on account of expecting to go into bigger profits next year. Is there anything in your investigation to substantiate that?

Mr. SMALL. The investigations that we have made, as I told you, at mill level, shows no evidence at all. You take the rayon mills. They have less than 4 days' stock on hand. That certainly shows a very rapid movement out.

Mr. LYNCH. Is there a rapid movement out or no movement in?

Mr. SMALL. No, with production maintaining its current pace which is a little better than it was, it means that they are getting their inventories out as rapidly as they possibly can. On the cotton mills, production is increasing but is not going up substantially. They have less than 2 weeks' supply of finished goods on hand. When you get into the converter level, as I said, you will find some withholding.

We would be delighted to get somebody who has a widely advertised product who is willfully violating our regulations and nail his

hide to the wall where everybody in the country could see it, because that would stop any of that sort of thing and we would get the goods on him if he were doing something against the law. We can't find one.

Mr. LYNCH. I could find them for you.

Mr. SMALL. We would be delighted.

Mr. WALTER. Proceed, Mr. Small.

Mr. WOLCOTT. Mr. Small, in the course of your discussion I hope you will comment on how price control has interfered if it has at all, in the reconversion and full production.

Mr. SMALL. Well, price control as you know is entirely outside of the jurisdiction of the agency which I head. Price control, OPA, is accused of a multitude of crimes and no organization is perfect. Undoubtedly there are places where pricing is not an incentive to production, where people are holding back. I will give you an example of that. One of the things most bothersome to us is the shortage of housing; and the shortage of housing is terrific. We have got a need of perhaps 12½ million houses over the next 10 years. The most that we can possibly hope to build during the calendar year of 1946 is between 400,000 and 500,000 houses.

Mr. WORLEY. And you need 10 or 12 million?

Mr. SMALL. We could use 10 or 12 million. I certainly would not believe it is sound for the country to build 10 or 12 million in 1 year. It should be spread out, but we could use 1½ million or a million and a quarter and relieve a lot of hardship that is going on today. One of the reasons why we cannot build more houses in 1946 is the shortage of certain materials. Take a typical material, cast-iron soil pipe. Before the war, back in 1939 and 1940, there were 52 foundries producing cast-iron soil pipe. They were producing 585,000 tons of soil pipe a year. If we had 585,000 tons of soil pipe during 1946 we would not have any shortage of soil pipe. That would be plenty, all we could possibly use. But the first half of this year up to June, we had about 28 foundries working. The rest were closed down, stopped completely.

Mr. WORLEY. Why were those closed down?

Mr. SMALL. A multitude of reasons if you investigate it. You will find that Joe Doaks died and his widow does not know how to run the business. She has closed it down until after the war is over. Or Jim Smith was called into service and he was the real manager of the plant and so the plant closed down.

Mr. WORLEY. There is no reason common to all?

Mr. SMALL. People say that the price ceiling closed it. That is the easy answer. That is a generality. When you get down to specifics, you find there are other reasons involved. By June of this year we were producing less than 175,000 tons a year, from 28 foundries. We just simply have to get more production of soil pipe or it is going to be a controlling bottleneck of housing.

We went to work on it. We went after the individual foundries to find out what they needed to increase production. They needed new tools, handling equipment, and one thing and another. By September we boosted it from 12,000 tons a month to 17,000. By October it was up to 19,000, November up to 22,000 and I think by the end of the year we will be above 26,000 and we will be well on our

way to 30,000. In other words, we are well on the way to curing that shortage.

In the meantime by one method or another, in dealing locally with people, we have managed to get five or six of these foundries of the largest size opened up because we said, "All right, we will go in and help you with the equipment and to expedite it."

Mr. WALTER. In your agency do you ever recommend that it be made possible to increase wages for workers?

Mr. SMALL. No, I was going on, if you will permit me, Mr. Chairman—

Mr. WALTER. Yes, go ahead.

Mr. SMALL. To say that we found upon our investigation that the consensus of the industry—and we were talking to pretty sound, sensible people—was that the price ceiling was too low. We therefore went informally to the OPA and recommended a price increase, said that our investigation showed that one was needed if we were going to get any production. They increased the price of soil pipe \$3 a ton.

Now, an increase in the price of soil pipe of \$3 a ton means that on a small house the cost of the house goes up \$0.70. On a big house, \$8,000 or \$10,000, it goes up \$3. We feel that we could stand a rise of \$3 in the cost of a big house to get production.

Mr. SIMPSON. Will the OPA let you raise the price?

Mr. SMALL. They did raise the price.

Mr. WELCH. Is it not a fact that the Government has large quantities of plumbing, hardware, lumber, and other materials in storage in different sections of the country?

Mr. SMALL. With my fingers crossed, because I might be proved wrong in some instances, I think the amount of lumber held by the services that is usable for housing is negligible. There is a considerable amount of lumber held by the services for boxing and crating that they got to move the stuff overseas or that they used to store the stuff coming back, but the record we have from the services shows that that is not a solution to the lumber difficulty, and I think a couple of committees of Congress have investigated it.

Mr. WELCH. What percentage of lumber now piled up in different sections of the United States could be used for building homes?

Mr. SMALL. Oh, I suppose if you take all the bits and pieces—

Mr. WELCH. I do not mean bits and pieces. I mean large stacks of lumber piled 15 or 20 feet high. I have been making some observations myself.

Mr. SMALL. The figures that we have show that the Army, Navy, Marine Corps, altogether have less than 5 million feet of lumber of all types, including boxing and crating which is the greatest proportion, and that they went out of the market at VJ-day. They are not buying any lumber whatever and that stock of 5 million feet will soon be used up, by next year. Stopping buying is an easier method than trying to declare surplus and get it out through those channels.

I am convinced that that is not—I do think that is going to be another "butter" where we found enormous stocks hoarded up. They look big now.

Mr. WELCH. I know enormous stocks exist in the San Francisco Bay area. I know further that only recently public opinion brought

them to a point where they began to distribute the vast stores of lumber and other building materials in order to help meet the demand for homes, particularly for returned servicemen.

If the same conditions apply throughout other sections of the United States it would far exceed your figures. I do not dispute that but I happen to know of conditions in the San Francisco Bay area.

Mr. SMALL. Well, that is a shipping point and you would have a concentration there.

Mr. WELCH. I know where in block after block in that area lumber is stacked higher than this room by far and in some cases is beginning to show dry rot.

Mr. SMALL. Of course, any figures we give you are figures we receive from others, from the services, and so forth. We have gone into this several times. Several committees have had this particular point up. I think the figures are pretty sound. We produce normally around 2 billion feet of lumber a quarter, and the total stocks for all purposes as I say were less than 500,000,000, which is less than a month's production.

Mr. REECE. Will you yield to permit me to ask a question?

Mr. WELCH. Yes.

Mr. REECE. In line with the thought that you are discussing, have you made a survey to determine the quantity of consumer goods on hand in the installations which are operating under the War Department—that is the ordnance companies and rather large installations? I might say before you answer the question that in some of these installations there appears to have been large quantities of supplies, such as sheets, pillow cases, towels, soap and paper of different types, tissues. Instead of declaring that surplus and letting it go into consumer channels a special effort has been made to get other Government agencies to take that over, stocking up so as to meet their anticipated requirements for a considerable number of years. Has your office gone into that question or does it come within your jurisdiction?

Mr. SMALL. It does not come within our jurisdiction. We have gone into it perforce, but it is not within our jurisdiction. The figures are available. The Army has large books of figures which they will be glad to give you on their inventories of these individual items, so has the Navy, so has the Coast Guard, and the rest of the agencies.

Now, we have said to the Army and the others: "On certain things which are short in the civilian economy we want these declared surplus without delay, no matter what your paper work is, get these done first."

Mr. REECE. My information is, Mr. Small, that many of these installations before they actually declare the material surplus they make a special effort to shop around to see if they cannot get some Government agency to take it off their hands. Those agencies then, being governed by just ordinary human beings, are seeing an opportunity to get supplies without cost and are building up tremendous inventories, in some instances a sufficient quantity maybe to operate 5 years or more. I do not know just what agency should give attention to it, but it is something that really deserves attention and I am not saying that as a criticism of any department or any particular installation.

Mr. SMALL. Well, I think you have a cure for that that is quite simple. Under the law which the Congress passed they are forced—the Surplus Property Administration is forced to offer these agencies the supplies first.

Now, the amount of money that they can spend on these individual things must come out of the appropriations that Congress has given to them, and I think you will find that the Budget Bureau would be right on their necks if they were storing up 5 years' worth of stuff out of a current appropriation.

Mr. REECE. Well, no money is involved except the cost of transportation, and in many instances it is transported free. The receiving agency pays nothing for it. In some instances, of which I happen to know, and that does not mean there is any material going to waste, but it is a question of whether it is being put to the greatest use at the present time.

Mr. SMALL. That is entirely outside of the jurisdiction of this agency.

Mr. REECE. I can see that. Possibly I should not have raised it but it is a matter of some importance.

Mr. SMALL. Yes, very great importance. Take, for example, one of the things very short in this country, men's shirts. The Navy about 3 weeks ago declared surplus to the Surplus Property 8,000,000 men's shirts. My understanding is that those 8,000,000 shirts in that short space of time have already been offered to the trade and are beginning to move out into the retail channels of trade. They also offered—my recollection is—8 or 9 million pairs of dungaree trousers, work clothes, and that those also are moving out. That is a typical example that I happen to know about where a civilian shortage is being readily relieved to the extent the services can.

Mr. WOLCOTT. Mr. Small, I asked a question to begin with as to the influence which prices have on reconversion. We have seen some examples in the textile industry. The shops are full of white sport shirts selling from \$5 to \$10. You cannot buy a white dress shirt to save your life. Now, why can't the cloth be channeled into the manufacture of dress shirts instead of high-priced sport shirts? Of course, price is the motivating influence there. They can put a little styling on the shirt collar and another button on the sleeve and call it a sport shirt and get \$5 or \$10 for it, when perhaps they would sell the same material in a dress shirt for \$3 or something of that nature.

Mr. SMALL. That has been one of the serious problems for a long time in that field, where you certainly had a drift upward in prices. People starting up in business would say, "I want to make \$5 shirts or \$8 shirts," and the fellow who makes the \$2.50 shirts could not get any cloth.

The Civilian Production Administration in many sections has allocated—given priority ratings to a very large number of millions of yards of cloth to go into shirts. We are going to begin to get some shirts. There has been the same treatment with shorts, undershirts, women's dresses, children's clothes, and so forth. That we did by specific allocation to specific companies and said: "You can have 100,000 yards of this kind of cloth if you will make shirts out of it for less than \$2.50 apiece." It is beginning to work.

Mr. WOLCOTT. There has been—you have had trouble in the textile industry ever since the Bankhead Control Act, haven't you?

Mr. SMALL. Yes. That has been 18 months. Again, you are getting over into a field that is outside of our jurisdiction, but we are doing our darndest to help out in the situation.

Mr. WOLCOTT. Yes, I know.

Mr. WALTER. Mr. Small, you stated that there are 72 regulations that you feel ought to be continued. Can you tell us what they are and why?

Mr. SMALL. Well, not quite, Mr. Chairman. We have on the books today 50 orders and 20 schedules. Now, I will just go over some of these orders for you and show you why I think we still need these particular orders on the books as of today. By December 31, some of these will have gone. If the Second War Powers Act is continued, more of them will be gone and most of them will be gone by June. We will have only a very few—that is assuming that we get production—if we do not have new shortages developing. One of these is L-25 covering the export of automobiles and trucks. I do not think we dare allow unrestricted export as of today until we get some of the demand filled back here.

Another one is molasses. There is a world shortage on molasses. If we did not have this control order, we would not have the distribution of molasses that we must have if we are to fill all the essential needs in the country.

Another is Quechua bark, that is quinine. There is a serious world shortage of quinine.

Another is tapioca flour. Another is lead chemicals. Another is resin. We have an extremely short position on resin as of today and I think that order will probably have to remain on the books—it may be possible to relax it somewhat but if the Second War Powers are continued I think that order would have to remain on the books until the new crop comes in, which will be next spring sometime, March, I think.

We have L-103 on glass containers. That is a simplification order. We have reduced the number of styles and sizes of glass containers because we get more production that way. People can get along with the standard container. If we had not we would have more of a shortage than we have today.

M-81 is on cans, that is because of tin. The order on collapsible tubes is also because of the shortage of tin. If we permitted unlimited production, our stockpile would disappear.

Another is on the textile bags. If we can get increased production on burlap there will be enough bags to supply agricultural needs and we won't need that order.

L-269 is on mining equipment. The main use for that today is the deep-cut coal-mining equipment to be directed into the mines that need it most, where we can really get production. Therefore, I think that order should stay on.

Corundum is another. There is a world shortage of corundum.

Another is rough diamonds and another is uranium. I do not think we dare lift the uranium order as long as we have the power to hold on to it.

Mr. WORLEY. There is quite a shortage on that, isn't there?

Mr. SMALL. We do not permit its sale.

We have an order on paperboard and one on newspaper print. That order is necessary as there is a considerable shortage of news print, far less than would probably be called for if news print were set free. If you lift the order today, I am afraid the fellow that would suffer would be the little fellow, the little newspaper. He might have a hard time getting his paper published. Yet on the other hand, I think that order will have to be lifted as soon as we can.

We have another order, M-293, for scheduled products, which is an insurance order. We do not use it at the moment but will if the need arises.

R-1 is on rubber. We have not enough crude rubber and I expect some power will have to continue beyond June of next year, just as I expect it on tin.

M-63 governs the import of strategic materials. Through the use of that order, we control the imports and prevent in many instances a very drastic price rise immediately. If we lifted the order, we would get a world price rise.

Mr. REECE. Would you permit a question there, Mr. Chairman?

Mr. WALTER. Yes.

Mr. REECE. Has your agency or the agencies with which you have been working—and possibly I should ask our presiding officer, a distinguished member of the Judiciary Committee, the question, rather—considered the feasibility of bringing together the various powers which you feel should be continued in effect and ask that they be continued rather than to suggest that War Powers Acts 1, 2, and 3 be continued in full?

Mr. SMALL. You mean as of the present time?

Mr. REECE. As of the present time.

Mr. SMALL. We have tried unavailably to do that, to write up a simplified bill that would do exactly what you are talking about. We have failed completely to do it.

Mr. WALTER. I think the Judiciary Committee will probably do it for you, Mr. Small. It seems to me that it would be more palatable to our people to have legislation giving the authority that you are now exercising through the War Powers Act. Certainly we ought not to continue the War Powers Act when there is no war.

The thing about it which impressed me was this, in talking with the legislative service, I found that they thought about 250 laws were affected by the War Powers Act. I talked with someone in the Department of Justice and they felt that there were perhaps more, and a mere casual investigation on my part convinces me that there are upward of 400 laws affected by the Second War Powers Act. What they are, nobody knows.

Mr. SMALL. There is a list of the laws that you are referring to, Mr. Chairman.

Mr. WALTER. Yes, I know, and that is not complete.

Mr. SMALL. But they are affected, as I understand it—Mr. Lombard, our general counsel will correct me if I am wrong—they are affected by the date of the termination of hostilities, not by the Second War Powers Act as such. Is that right, Larry?

Mr. LOMBARD. They vary. Some terminate by cessation of hostilities, some by specific dates, some extend on through 1946, some of them halfway through, some of them until the end of the war, all in different language, and the Judiciary Committee was going into that and getting a report. Mr. Snyder's office, Director of War Mobilization and Reconversion, is recommending those statutes which can be dropped immediately and those which should be continued.

Mr. WELCH. To what degree has the manufacture of synthetic rubber been curtailed in this country?

Mr. SMALL. As yet the lack of crude—you see, the crude stock pile is down to a very dangerous low limit. We do not see enough crude possibly in sight from abroad to permit any substantial relaxation. The result is that the demand for synthetic has not dropped off substantially yet. It will as more crude becomes available.

Mr. WELCH. Well, imported crude rubber.

Mr. SMALL. The major part of our crude is imported.

Mr. WELCH. Why should there be any curtailment of synthetic rubber by this Government while there is still a demand, as you have stated, for rubber?

Mr. SMALL. There would be no curtailment of production of synthetic as long as the demand was there, but when crude becomes available—you take in a passenger tire. We use a small proportion of crude today in the tire. The life of that tire is not as good as it would be if you increased the proportion of crude and decreased the proportion of synthetic. You can get a better tire with more crude in it than you can without the crude, so if there were ample crude and the tire company was trying to produce the best possible product, it would reduce its synthetic in the passenger tire and increase its crude on synthetic as they now know them.

Mr. WELCH. If there is a shortage of crude rubber, why has the Government curtailed or stopped the production of rubber in this country?

Mr. SMALL. I think that is mainly the law of diminishing returns on the thing. We are getting some crude in.

Mr. WELCH. Well, if we can manufacture it here and give employment to men and women in this country, why should we import crude rubber?

Mr. SMALL. That would mean a subsidy.

Mr. WELCH. What?

Mr. SMALL. That would mean a subsidy.

Mr. WELCH. Well, we are paying a subsidy to keep men at work. If they are employed in the production of rubber and other materials instead of raking leaves—by the way, I hope that day will never return, but one cannot tell what is ahead of us—I sincerely think it is a mistake to stop the production of either synthetic or rubber made from the guayule plant.

Mr. SMALL. Shall I go on, Mr. Chairman?

Mr. WALTER. Yes.

Mr. SMALL. Is that a sufficient answer to you? Because that is entirely within the province of Congress, if you want to pay a subsidy for that purpose.

Mr. WELCH. Well, Congress generally acts on recommendation of the departments.

Mr. SIMPSON. A while ago I understood you to say that you people are looking for some manufacturer to nail to the wall. Will you elaborate on that a little bit?

Mr. SMALL. Yes, sir; one of the biggest dangers to the economy and to production and to reconversion, if you like, is the shortage of certain materials. The thin supply must be spread thinly and equitably across industry. I am convinced that on most of these things there is enough, if everybody plays the game fairly, holds his inventories down to a bare minimum, I am convinced there is enough to see us over the hump until we get production up where supplies are adequate, but if anyone, or any substantial number of people, try to play safe, try to hold on to more than they have to have, or who deliberately for speculative reasons try to hoard or exercise preemptive buying, there will not be enough and we will have artificial shortages created that will wreak havoc in industry.

Therefore, we have the inventory regulations which say a man must not hold more than a certain amount of these scarce materials.

Mr. SIMPSON. I see.

Mr. SMALL. We do not include anything that is in free supply, let them buy all they want, but the things that are scarce, unless he is held down to a bare minimum for the good of all, we are going to have artificial shortages and the whole mechanism will in turn slow down.

Now, that inventory regulation, Mr. Chairman, is one that is under daily review to be sure that we have not got anything on the regulation that is in good supply because we do not want to keep people from buying anything that they can buy without harming anybody but that it does cover the things that are dangerous to production.

If you remember the last war, after Armistice Day, November 11, hoarding started, speculative buying started. Prices went up like a skyrocket and they went up until the middle of 1920. The net result was terrific depression that you saw later.

Now, that can be prevented by the Government if it wishes to do it. It can be prevented by one simple mechanism, the inventory control.

Mr. SIMPSON. That means no specific type of manufacturer that you wanted to nail to the wall?

Mr. SMALL. Anybody who is hoarding and who is thereby creating needless unemployment.

Mr. WALTER. In other words, you had in mind the speculator?

Mr. SMALL. The speculator or the fellow who is trying to play too safe or who is not playing the game with his country. We are not a Gestapo trying to go out and get people at all. Quite the contrary. Most of the work we do is by agreement with people, rather than using the club on them. But anybody who does that particular thing and who hoards needless amounts of material I believe deserves exposure.

Mr. SIMPSON. Have you found any of it?

Mr. SMALL. No, with the exception of some cases involving small amounts. The big fellows either understand the importance of not doing it or are afraid of exposure. They are good citizens, but inventory control is an added safeguard.

Mr. WELCH. Mr. Small, you stated at the beginning that there is still a steel shortage in this country. Can you explain why there should be any shortage of steel at this time, now that they have practically ceased building ships, tanks, and airplanes and other war materials for which steel is used?

Mr. SMALL. Yes, sir; the answer to that, Mr. Welch, is one that seems to be lost sight of most of the time. A great deal of the steel that was produced during the war for war goods was in kinds of steel that are not needed in the civilian economy. The machines that you used to produce that steel are now idle because nobody can use it. That is the reason that our percentage of production of steel, which is currently running around 79.3, I think, against the 100, is down. We can't reach 100 because nobody wants the heavy plates we used in ships. They want light sheets. We are running the light sheet capacity of the country to the maximum. We are producing all we possibly can and trying to increase the capacity to produce. There are a number of forms of steel of that kind that we produced during the war that there is no longer any market for and the machines are not adaptable to making anything else.

Mr. WELCH. Which particular type of steel is in the greatest demand?

Mr. SMALL. The one type of steel that runs throughout civilian industry is sheet, light-gage sheets. You use that in automobiles, washing machines, practically everything you can think of, and going beyond the light-gage sheets you get into galvanized sheets, which is light gage with galvanized coating.

In those forms of steel we have an insatiable demand at present. We are spreading a thin supply thinly. We are trying to get enough to get by on into the hands of all producers but we have not got enough to give any producer all he would like to have.

Mr. WALTER. Mr. Worley?

Mr. WORLEY. Mr. Small, are you —

Mr. WELCH. Some agencies of the Government are very busy discouraging the decentralization of steel in this country. One of the finest steel plants in the world is located in the State of Utah. I do not know whether they are still producing or not. Every effort possible is being made to discourage the continuance of two plants built at Geneva and Fontana largely by the United States Government. Still we have a shortage of the very types of steel those plants are capable of turning out.

Mr. WALTER. We only have a very few minutes, Mr. Welch.

Mr. WELCH. It is a matter of economy and I think it should be looked into by our committee.

Mr. SMALL. I can give you one sidelight on it, Mr. Welch. Geneva was equipped primarily to produce plate for the maritime program, the Navy program on the west coast, and it has very limited capacity to produce sheet, and sheet is what everybody needs. It would take a lot of time to get over completely into sheet making.

Mr. WELCH. Not very long. It only took a few months to build Fontana, I recall very well. I was down there during the construction. It should not require so much time to reconvert from heavy plate to light plate and from larger forms to angles, iron, and smaller types of steel necessary for construction purposes.

Mr. SMALL. I can get the figures for you, Mr. Welch, but my impression is that it would require 6 to 9 months to do it and a great many millions of dollars.

Mr. WORLEY. Do you have any reason to be optimistic over our reconversion progress to date?

Mr. SMALL. I think our reconversion progress has been considerably better than you get the impression from the newspapers or from reports that you hear. The little people, the bits and pieces here and there, all through industry are going ahead. They are making progress. As I mentioned earlier, when I first came in, about our September report, it showed that they were considerably ahead. The October reports are just coming in from the companies, their October production. I cannot even hazard a guess as to what the figures will show, but I will be very much surprised if production during October is not considerably better than we would get the general impression from reading the headlines of the strikes, the dramatic things, because, after all, this country is not all just a few big companies and big industries. It is a lot of little people. Nevertheless, the strikes and labor troubles are having their effect, which will be felt later as the slow-downs occur due to lack of components, and so forth. I am far more optimistic, really, than the average citizen is today as to the progress of reconversion.

Mr. WALTER. Mr. Small, what recommendations do you care to make to this committee?

Mr. SMALL. I strongly recommend, Mr. Chairman, that you support the continuance of the Second War Powers Act, as amended by the House Judiciary Committee. That is my recommendation.

Mr. WORLEY. Do you recommend any additional legislation?

Mr. SMALL. You mean on Second War Powers?

Mr. WORLEY. On anything.

Mr. SMALL. No, I think—and I might point this danger out to you—the House Judiciary Committee has recommended that the Second War Powers Act as now amended be extended for a period of 6 months, that is, until June 30 next year. Undoubtedly there are some things which we can tell the Congress and tell you now, that there is no question about it that these troubles are not going to be ended by June 30.

Mr. SIMPSON. How long do you think it should be extended for?

Mr. SMALL. It would make it a lot easier if it were extended for a year. I think we can get along with an extension of 6 months if the Congress understands that next February or next March it should decide what powers are to be extended beyond that time. If the people think that the act—that those powers are going to stop as of June 30—then about 3 months before that you are going to have something like we are having today, which is slow-downs and “Let’s wait, let’s not do anything, let’s drag our heels a little bit.” You are going to have that same condition starting about March or perhaps April of next year.

My recommendation would be that the Congress consider promptly what they are going to do about this as of next June. I hope that by that time my own organization will be out of business because the few remaining things can be done in some other part of the Government. You do not need an organization of our size to accomplish that. Ac-

tually, with the money that we have left in our bank roll, we are not going to be able to do much beyond next March.

Mr. WALTER. Mr. Folsom, are there any questions you wanted to ask?

Mr. FOLSOM. No, sir.

Mr. WALTER. Any members of the committee want to ask any further questions?

Mr. LYNCH. I move we adjourn.

Mr. WALTER. The committee is adjourned.

(Whereupon, at 12 noon, the committee adjourned.)

POSTWAR ECONOMIC POLICY AND PLANNING

THURSDAY, DECEMBER 6, 1945

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POSTWAR ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met, pursuant to call, at 10:30 a. m., in room 1012, New House Office Building, Hon. Francis Walter (chairman pro tempore) presiding.

Present: Representatives Walter (chairman pro tempore), Murdock, Lynch, Worley, Gifford, Welch, and Wolverton.

Also present: Edwin B. George and W. Y. Elliott, consultants.

Mr. WALTER. The meeting will come to order.

Mr. Seidel of the W. T. Grant Co. will make a statement.

STATEMENT OF ROBERT A. SEIDEL, VICE PRESIDENT AND COMPTROLLER OF W. T. GRANT CO.

Mr. SEIDEL. I would like to make the same statement I made yesterday to the Senate Small Business Committee, and then after I finish with that, we can discuss everything that I am able to.

My name is Robert A. Seidel, vice president and comptroller of the W. T. Grant Co.

Our company operates 490 stores in 39 States, and we deal primarily in low-priced textiles and clothing and variety-store merchandise. While I don't presume that you would call our company small business, our average volume per store during the past year approximated only \$350,000.

The primary problem we are faced with today, and this concerns all distributors, small and large alike, is inability to obtain consumer essentials of satisfactory quality in reasonable price ranges and in adequate quantities.

We endeavor to distribute merchandise to consumers at the lowest possible prices, but we have been severely handicapped throughout the wartime period and currently by a series of OPA actions that have caused line after line of low-priced goods to disappear from the market and have forced drastic deterioration in quality in those lines that have remained.

It is perfectly clear that inadequate pricing provisions have played a major part in causing these goods to disappear. It is also clear that the current unrealistic, theoretical, and inequitable approaches to pricing problems are impeding production and literally throttling industrial activity throughout the country.

Presumably, OPA is acting in the interests of consumers and perhaps their intentions are to do so, but the fact remains that the bulk of their important regulations, particularly insofar as low-priced essentials are concerned, have worked in reverse and the end result has been a forced cheapening of quality and disappearance of goods, thus compelling consumers to purchase in price ranges much higher than those in which they would normally buy.

The series of regulations to which I refer may be briefly described as first, the "rigid-freeze" technique, which plainly discriminated against the low margin producer; second, the "highest price line limitation," under which thousands of low-priced producers could not possibly operate; the "maximum average price plan," which fails to make adequate provision for mounting labor and material costs, notwithstanding the fact that it has been amended countless times; and now in addition to these three, we have "cost absorption," simply a new name for the same type of unrealistic and inequitable approach as has obtained throughout the past 3 years.

Keep in mind that price indexes do not reflect quality deterioration, nor do they reflect production. Any appraisal of current living costs based on such indexes is therefore highly erroneous.

OPA stubbornly insists that they are acting clearly in accordance with the Stabilization Act and the President's Executive Order 9599, and that the Administrator has little if any discretion except to adhere rigidly to September 15, 1942, price levels.

Of course, as every housewife in the country knows, it is ridiculous to assume that the "line" has been held.

You men in Congress must decide whether or not you want to continue to countenance a forced cheapening of quality to meet a price ticket. If you do not, you must insist on immediate major policy changes in the administration of the pricing agency.

Of course there are honest differences on pricing technique, but every reasonable person agrees that competent, equitable and clean-cut decisions are needed to encourage industry, to put men to work, and to produce goods quickly and thus counteract the inflationary trends that are now being aggravated by forced acute shortages induced by Governmental restriction.

OPA would have you believe that they are making programs and they describe their low-end-goods program in glittering terms, but I will tell you that insofar as our company is concerned, the shortage of low-end merchandise is more serious at the moment than at any time during the war.

Approximately half of our sales are obtained in dresses, hosiery, underwear, lingerie, draperies, domestics and yard goods, and in these important lines our total inventories on November 1 were less than half of what they were 1 year ago, and approximately one-third of what they were 3 years ago, and, gentlemen, we have purchased every single piece of low-end goods that we could buy. If we, with hundreds of buyers in New York, cannot get goods, it is no wonder that small outlying stores cannot buy merchandise.

OPA continually attempts to justify their actions by preparing charts and booklets showing national averages in total industry sales and profits. Ordinarily, for the retail business, they use the figures of the controllers' congress of the National Retail Dry Goods Associa-

tion. These are the figures of about 250 large successful stores. They are completely meaningless when applied to the operation of our company, for example, and of course are miles away from the actual operating experiences of the hundreds of thousands of small stores throughout the country.

Every retail trade association in the country has consistently objected to OPA's using national average figures, but they insist on doing so, and they fail to give any consideration whatsoever to the wide differences in margins and operating expense rates of the various types of distributors. For example, the gross margins of the 250 stores in the Dry Goods Association vary from a low of 32.8 percent to a high of 45.7 percent. Variety store margins vary from 27 to 42 percent; furniture stores from 21 to 43 percent; hardware stores from 11 to 41 percent.

All of these stores have similar differences in operating expense rates. Department stores vary from 18 to 30 percent. Variety stores from 21 to 35 percent. Hardware stores from 7 to 39 percent.

It is perfectly clear, considering these wide dispersions of margins and expense rates, that it is quite impossible for any pricing regulations based on national averages to be fair and equitable.

OPA would have you believe that anyone who does not agree 100 percent with their arbitrary narrow viewpoint is against price control and is advocating runaway inflation.

On the other hand everyone knows that labor costs and consequently material costs have increased sharply since 1942, that operating costs for every type of business are far above 1942, and that industry is generally faced with further increases in labor costs. Under the circumstances it is hardly possible to prevent some increases in prices to consumers, but this does not mean advocating runaway prices or inflation.

OPA implies in their letters to Congress and in their statements to the press that present pricing policies permit manufacturers a price sufficient to defray current costs and yield prewar profits, but all industry knows that this is not the case. The pricing formulas make only partial allowances for current labor and material costs and administrative expenses. The strict application of this policy has been and is currently a major impediment to production. Manufacturers are compelled to discontinue production of prewar commodities they were skilled in making in great volume, and to shift to lines in which they were not experienced. They have been forced to develop "new" wholly unnecessary products as a subterfuge to obtain price relief, whereas the new products are in most cases not equal to the prewar products in either quality or utility. At the same time, the pricing agency has permitted countless thousands of new-comers to enter the manufacturing field and manufacture such commodities at prices considerably higher than would be necessary to enable old-line manufacturers to remain in their regular businesses.

This situation is of course completely ridiculous, but the exhibit that has been made available to your committee clearly shows that the situation not only exists but that it is widespread.

If OPA would only concentrate their activities on encouraging production, they would get the unqualified and solid support of industry generally. A tremendous amount of good could be accomplished be-

tween now and next July toward satisfying the pent-up demand for "hard to get" goods. If such action were taken now, there would be much less likelihood of any widespread upward price trend when controls are lifted next year.

Keeping in mind that production is our primary objective and that no one will produce goods except at a profit, it would seem to me that you must compel OPA to grant every producer a price sufficient to cover all current costs plus prewar profits.

The Smith committee in the House had held many hearings on this subject and in their eighth intermediate report, dated October 22, 1945, they made seven recommendations which I believe would go a long way toward solving our problem. These may be paraphrased as follows:

- I. Allow manufacturer's current costs plus prewar profits.
- II. Centralize and simplify granting of prices.
- III. Once granted, in absence of fraud, the price to remain.
- IV. Increase consumer prices by exact amount of increase to manufacturer (no pyramiding).
- V. Decontrol as soon as practicable.
- VI. Concentrate OPA activity on these objectives.
- VII. Revoke or modify MAP.

Unless action of this type is taken promptly, our transition to a normal peacetime economy will be severely handicapped.

Mr. WALTER. Are there any questions?

Mr. LYNCH. What you have given here this morning is similar to the testimony that you have given before other committees of the House and Senate, isn't that true?

Mr. SEIDEL. That is quite true.

Mr. LYNCH. May I ask you whether or not your company, the W. T. Grant Co., does not show higher profits before taxes for the year 1944 than at any time in its previous history?

Mr. SEIDEL. That is quite true.

Mr. LYNCH. So, despite, OPA and all the regulations of OPA which have been imposed upon business, your concern has before taxes made more money in 1944 than ever before.

Mr. SEIDEL. That is exactly right.

Now, let me continue my answer a minute on profits.

During the years 1936, 1937, 1938, and 1939, we averaged a profit on every dollar of sales of 3.6 cents. Ever since then the profit that we have made in percent of sales has gone steadily down excepting for 1 year, 1941.

In 1940, it was 3.2 cents: in 1941 it went up to 3.4 cents; in 1942, it dropped to 2.4 cents; in 1943 it dropped to 2.3 cents.

Mr. LYNCH. When did the OPA go into effect in 1942?

Mr. SEIDEL. In March of 1942. I don't believe that their regulations were very effective until about May, but I think they started in March.

Mr. LYNCH. You think that the 1942 drop is due to OPA regulations?

Mr. SEIDEL. Oh, yes.

Mr. LYNCH. All right.

Mr. SEIDEL. Partly, and partly to our pricing practices. We sell, I will have you know, wholly half of our goods at less than OPA

ceiling prices. We feel that we are better qualified to determine what our goods should be sold for than OPA.

Mr. LYNCH. Don't you feel that every manufacturer feels that he should be better able to figure those prices than OPA?

Mr. SEIDEL. I know that most of them know better than OPA does. As long as Dr. Kettering is in General Motors and they have no similar person in OPA—

Mr. WALTER. OPA doesn't tell you what you have to charge, just a ceiling?

Mr. SEIDEL. That is right, and very often their ceilings are lower than they should be and very often higher than they should be.

But let me go ahead with these profits.

For the last 2 years, 1943 and 1944, our profit of 2.3 cents per dollar—

Mr. WALTER. Before taxes?

Mr. SEIDEL. After taxes.

Mr. LYNCH. What about before taxes? After all, the way to judge whether or not your business has increased, whether you had been bothered by OPA, is by the volume of your business before taxes.

Mr. WALTER. Not "volume" of business.

Mr. LYNCH. The gross profits.

Mr. SEIDEL. The only money we have that you can consider as ability to absorb increases that are coming up is the money that we have left after we pay our taxes.

Mr. LYNCH. I quite agree with you on that. I am trying to find out from you what was your profit before taxes in these years that you claim that OPA has restricted you.

Now, OPA is not responsible for taxes.

Mr. SEIDEL. Let me make the point again very clearly.

I didn't say OPA had restricted us from making sales, and I didn't say OPA had restricted us from making profits. I said that OPA had forced us to sell merchandise that continually is deteriorating in quality, that they are forcing a quality deterioration on the American consumer.

That is my point. I am not down here to complain about OPA's effect on the W. T. Grant Co.'s profit. Nor have we ever asked OPA for any kind of relief in pricing. We will sell our goods at or below any price that Chester Bowles will set on the goods.

We have no quarrel with that at all, but we don't want him to continually force the cheapening of the products we have to sell to our customers.

Mr. LYNCH. Don't you think that a good part of this scarcity that you talk about has been due in the last few months to the fact that some manufacturers are not manufacturing because they are taking advantage of the repeal of the excess-profits taxes?

Mr. SEIDEL. No; I think exactly none of it is due to failure to manufacture. I think some of it is due to failure to sell the goods after they manufacture because of the reason you suggest.

Mr. WALTER. You know—

Mr. SEIDEL. Let me finish that answer.

Mr. WALTER. Do you know the names of any companies that have processed materials and are not selling them, in order to take advantage of the new tax situation?

Mr. SEIDEL. Let me continue the answer.

We employed Lionel Edie in New York. He is a well-known economist, and asked him to make a study of that very situation to determine, if he could, just exactly how much is being held back because of this tax reason.

He assured us that, after quite a comprehensive survey of the thing, that all of the goods held back in the textile line would not mean at most more than 1 week's supply to all of the stores.

Now, you ask about particular names. I don't know the names of people that are holding back goods. I can tell you things of this kind: The whole underwear industry continued to produce underwear, but they didn't sell the underwear because they couldn't sell it without selling at a loss.

Mr. WALTER. Isn't that due to the fact that most of those people have three or four different lines? On the cheapest grade, which they sold largely for advertising purposes, they made little or no profit, and with the scarcity of materials, they put all of the materials into the lines in which there was a greater profit?

Mr. SEIDEL. Not at all. The biggest firms in the United States—take people like the Standard Knitting Mills—didn't ship a suit for months in any price, because every single product they made under the OPA ceiling price would be at a loss.

We have 500 stores, we will buy any kind of underwear that we can. We haven't had a knitted union suit in any store in the United States all fall.

Now, OPA has granted the underwear people some relief. They are going to ship this month and for the month of December we will get a partial allocation of goods. This will be some fraction of what we had during December of 1939 or 1940, whichever they use for their calculation.

We are also told that the first 3 months of next spring we can get an additional allocation of winter underwear. The underwear industry hasn't yet a price on spring underwear. We would like to start buying spring underwear in January. We won't be able to, and I dare say if the OPA follows its practices, it will be late in the spring before the underwear people know how to price their underwear.

Mr. WELCH. How do your postwar consumer prices compare with wartime consumer prices?

Mr. SEIDEL. They are up very sharply in practically every line that we handle. The price to consumers of almost any kind of goods is sharply up from what it was before the war.

Is that your question?

Mr. WELCH. No; during the war. Perhaps you didn't get my question. I will repeat it.

How do your postwar prices compare—that is, postwar consumer prices, compare with wartime consumer prices?

Mr. SEIDEL. I would say they are higher. They are going up steadily.

Mr. WELCH. Why?

Mr. SEIDEL. Because of this forced cheapening of quality due to increases in labor costs, material costs.

Mr. WALTER. Then do I understand you to mean that for cheap articles you are charging more today than you did during the war?

Mr. SEIDEL. Of course. Prices continue to rise, Congressman. They are rising all the time.

Mr. WORLEY. Doesn't OPA have any influence?

Mr. SEIDEL. They have very little influence on most of the textile lines. Very little influence on the clothing prices. They have kept them from rising as far as they would have had it not been for OPA, but a dress that a housewife bought in March 1942, for \$2, is just as good as the dress she is going to buy today for \$10.

As far back as 2 years ago, I came down here and told people 59-cent dresses had not disappeared, they were selling then for \$2. \$2.95 dresses are being sold for \$5.

Mr. LYNCH. Is your profit the same or has it increased on those dresses?

Mr. SEIDEL. In percentage of profit we are making a lower percentage. In dollars we are making a greater amount of dollars. But we are one industry that you can't criticize the profit of. Our profits have gone up 6 percent for the whole war. Our sales have gone up 75 percent.

Now, if we increase our business 75 percent, wait on 75 percent more customers, and earn 6 percent more profit, we are doing pretty well for the consumer.

Mr. WALTER. You made a statement a moment ago that I am sure I didn't understand.

You said that these inflationary trends could only be curbed by permitting an increase in prices.

Mr. SEIDEL. That is right.

Mr. WALTER. Will you explain that.

Mr. SEIDEL. Let me make that clear.

Mr. Bowles has a low-priced goods program, and he has talked an awful lot about that. We will take one of the major manufacturers of goods under the low-priced goods program, and the particular one I would like to tell you about now is the Milan Co. down in Mississippi, for example, a very large manufacturer of children's wash suits.

His capacity is 90,000 dozens per quarter, 360,000 dozens a year, between 4 and 5 million garments.

Now, under the low-priced goods program, he is expected to produce a wash suit at 71 cents. And that is to be sold to consumers at \$1.05.

Now, he claims that he can't produce that wash suit for 71 cents, that he has to have 93 cents.

Now, OPA won't give him 93 cents, at least they haven't to date. So he isn't making the wash suit. In the past 3 months he has made 7,500 dozens. He could have made 90,000 dozens.

I want to read a letter that he has just written to OPA recently; that is, November 8, to point out that price, and price alone, is keeping this man from making between 4 and 5 million wash suits a year.

Now, at the same time that he is not permitted to have 93 cents, there are hundreds of manufacturers throughout the country that are getting prices far in excess of 93 cents for wash suits that aren't nearly as good as this man's wash suits.

Mr. WALTER. If you are referring to manufacturers set up in business since the regulations—

Mr. SEIDEL. Some, and some that were in other business. They can't get a price in their own business, so they go to OPA and get a price in wash suits.

Or, they are people that start a new business, but the end result is just the same.

If you go into a store now and buy a wash suit, you buy one of the new man's products at a higher price than you would have to pay if you bought this man's product.

Mr. WALTER. What explanation does OPA make for giving a new concern a higher price, permitting a higher price than is permitted in a concern that has been manufacturing a line for some time?

Mr. SEIDEL. They wouldn't do it intentionally, but they can't help but do those things. They make mistakes. They don't have people in OPA qualified to determine what a proper price is for the new man that comes to them. Anybody can go to OPA with a list of two or three items and apply for pricing.

Let's say they set the 20 prices. When the man goes away from OPA he finds that he has 8 out of the 20 that he can make money on, and the other 12 he can't make any money on.

He will turn his production loose on the 8, and certain of those will be too high.

Mr. WALTER. Certainly the OPA knows the price of this company in Mississippi, and when a new man comes in and asks for a price, they don't arbitrarily set a price.

Mr. SEIDEL. Instead of taking the company in Mississippi as a comparison, he takes some company that got an absurdly high price before.

He says: "You have John Smith in Little Rock, Ark., that got this price, and I want this price."

It is pretty hard for OPA not to give him that price.

You have got this new man getting a price based on an in-line price of some kind.

I don't say that OPA could prevent that, but the best way to prevent that would be to give the man in Mississippi a price to produce the 5,000,000 garments, and the fact that they are produced and being sold at a low price to the customer is going to automatically knock out this newcomer.

Mr. WALTER. I saw in the paper the other day where Mr. Bowles stated that retail merchants made a profit of, I think, in excess of a thousand percent over the profit they made in 1939.

Mr. SEIDEL. Yes, sir; he made the statement that the increase in department store profits was 1,324 percent, and yesterday I explained to the Senate committee that that was just a statistical mirage, and this morning the retail industry is having Professor McNair of Harvard University come before the committee and point out that the Bowles figures are entirely wrong.

Mr. WALTER. You say that those figures are wrong?

Mr. SEIDEL. Yes.

Mr. WALTER. What do you think they are?

Mr. SEIDEL. I can tell you, I think, exactly.

Mr. WALTER. Half of what Mr. Bowles said?

Mr. SEIDEL. Nowhere near that.

Mr. WORLEY. Do you mean he wasn't even half right?

Mr. SEIDEL. That is right. All retail corporations, according to this chart, had an increase in profits using 1939 as a base, of 368 percent.

Mr. LYNCH. What chart are you referring to?

Mr. SEIDEL. That is the chart; the source of it is the Department of Commerce, and it is published in a booklet by Dr. Backman.

Mr. WORLEY. They are profits for all retail stores?

Mr. SEIDEL. Yes; all retail incorporated stores. All retail trade corporations.

Mr. WORLEY. Are those profits gross or net?

Mr. SEIDEL. This is earnings before taxes.

Mr. WORLEY. What is your own net?

Mr. SEIDEL. I can give you that, too. Let me explain too, while I am at it, the fallacy in some of these averages.

Mr. WALTER. Before we get to that—

Mr. SEIDEL. Here is the net profit in 1939. Department stores had 3.35 percent net profit, in 1944 they had 3.6 percent net profit.

Mr. WALTER. On sales?

Mr. SEIDEL. Yes; percentage of sales. Three and thirty-five hundredths in 1939, 3.6 in 1944.

Now, variety stores had 5.5 in 1939, and they dropped to 3.6.

You see, the type of business I am in, our percentage of profits has gone down. In the department-store business the percentage of profits has gone up somewhat.

Now, these 1936 to 1939 figures, you have got in there losses averaged with profits to make a base. Let's say that you had a store, and that in your store during the base period you made \$200, and I had one and in my store during the base period I lost \$100. When you add the two together, we get an average profit of \$50.

You go ahead and make the same \$200 that you made before, and it is perfectly factual to say that you have got a 300-percent increase over the average profit of the base period, although you haven't increased your profit a 5-cent piece. That is what is wrong with these averages.

During the years 1936 to 1939 more businesses lost money than made money, according to the Treasury.

Mr. WALTER. In spite of OPA, the retail merchants of this country have made a greater profit than they made during 1939?

Mr. SEIDEL. Of course, they have. So have we. But that isn't what we are here to talk about, or is it?

Mr. WORLEY. What are we talking about?

Mr. SEIDEL. I thought I was talking about OPA's forced cheapening of the quality of goods that consumers are buying today.

Now, if we are here to talk about whether or not we have made too much profit during the war, we can talk about that. I haven't anything to apologize about.

Mr. WORLEY. We wanted to get a well-rounded picture of how OPA is operating in your field.

Mr. SEIDEL. I think the big problem we are faced with today is to get goods produced, and I think that is the only thing we can do to stop prices going up is to get goods produced, and anything that can be done to make people produce goods is very important.

Mr. WELCH. Why should it cost more to produce consumer goods today than it cost during the war? In view of the fact that hundreds

of thousands of young men and women are being released from the Government service and going into private industry daily?

Mr. SEIDEL. I don't think it should continue to cost—

Mr. WELCH. And take-home pay has been reduced.

Mr. SEIDEL. Whose take-home pay?

Mr. WELCH. The man employed in industry whose goods you handle.

Mr. SEIDEL. I don't believe it.

Mr. WELCH. I believe it and have facts to prove it.

Mr. SEIDEL. I think that the take-home pay has been reduced for people in war production.

Mr. WELCH. The increased costs of consumer goods to the greater masses of the people, mounting, as you have said, every day, has reduced the purchasing power of the take-home pay, and is largely responsible for a great deal of labor troubles that are taking place in the country today.

Mr. SEIDEL. In our business there hasn't been a nickel reduction in take-home pay of any envelope we have. That is going up steadily.

Now, let me give you some figures.

During 1940, and that is prewar, and that is pre-OPA, when a customer came into our store they spent 33 cents. That is what the average customer spent.

Our margin of that 33 cents was 10.6. Now, it cost us to wait on that customer in expenses 9.14 cents. We paid the Government in taxes 0.43 cents, and we kept as profits 1.03 cents per customer in 1940.

Now, let's take 1944, last year. From 1940 to 1944, prices were going up, sales were going up, and instead of selling the customer 33 cents in 1944, we sold him 61 cents.

The margin that they had to work on on 61 cents was 20.95 cents, but now we come to the question of how much it cost us, and that went up from 9.14 cents to 15.9 cents.

Then, our taxes were 3.67 cents, and we kept 1.38 cents. That is 1944.

Now, what is happening this year, one year after 1944?

The average customer is spending a little bit more than 63 cents this year instead of 61 cents last year. And the margin is up from 20.95 cents to 21.27 cents, and the cost of waiting on that customer is up again.

Last year it was 15.9, this year 17.52 to wait on him.

Now, our taxes this year are going to be down, because our earnings are going to be down from last year in dollars.

Mr. LYNCH. They will be down for other reasons. They are going to be down because we have repealed some of the taxes, haven't we?

Mr. SEIDEL. Not until next year. I am talking about this year.

Our profits this year are down in dollars.

Mr. WORLEY. When did they start going down?

Mr. SEIDEL. On the 1st of August, and they have been going down very steadily and very sharply during August, September, October, and November.

Mr. WORLEY. Why?

Mr. SEIDEL. Because we can't get goods that we need.

Mr. LYNCH. Is it also true because of the reason Mr. Welch has pointed out that take-home wages of people since VJ-Day have decreased, and that there isn't the buying power that was there before?

Mr. SEIDEL. That isn't right according to Mr. Bowles. He says we have greater buying power right now.

Mr. LYNCH. Do you accept Mr. Bowles as an authority?

Mr. SEIDEL. Not as an authority for anything.

Mr. LYNCH. Well, answer my question without referring to Mr. Bowles.

Let me have your own opinion.

Mr. SEIDEL. My own opinion is that there is no reduction of buying power, as evidenced by total retail sales volume of the country.

But the sales volume in our type of business is going down because we cannot get the goods we need.

Now, let me give you some inventory figures. As of November 1, our inventory in these lines is less than half of what it was 12 months ago and half of our business in these lines.

The first one is domestics, the next is hosiery, the next is underwear, the next is draperies, the next is yard goods, the next is lingerie, and the last is women's dresses.

Now, in those lines as of November 1, 1942, we had \$14,800,000 worth of those goods.

In November of 1943 we had \$11,900,000, dropping.

In November of 1944 we had \$9,800,000, still dropping.

And now we have \$4,700,000, less than half of what we had 12 months ago, and 30 percent or so of what we had 3 years ago.

Mr. LYNCH. When did you buy that stock 3 years ago?

Mr. SEIDEL. We buy it—

Mr. LYNCH. Was that laid up?

Mr. SEIDEL. No; nor do we ever keep stock more than 60 days.

Mr. WORLEY. Is that high-priced or cheap stock?

Mr. SEIDEL. All cheap. We are in the low-priced business. What I am talking about is the low-priced business, and I am talking about OPA's actions that have stopped people from getting low-priced goods.

You can't throw industry into a basket and say: "You are all making too much money, and OPA is right, and we have to follow their policies 100 percent or have inflation." That is merely ridiculous.

You people have to take a straight middle-of-the-road approach to this.

Mr. WOLVERTON. Are they manufacturing to the extent they did when your inventory was higher?

Mr. SEIDEL. Yes, sir.

Mr. WOLVERTON. How do you account for the fact that the inventory is low?

Mr. SEIDEL. Most manufacturing is diverted to the products on which they can make more profit. If they can make more money on a higher-priced piece of goods, and they are permitted, they will do so.

Mr. WORLEY. Your suggestion is not to bring down that high cost, but—

Mr. SEIDEL. I would suggest both, where the pricing is wrong—let's take a specific example.

I can, and I think I have got one here. Let's take broadcloth.

You need broadcloth, and you need it for shorts, and for shirts. You can't find any shirt today and you can't find any shorts, and just last

week we had the shoppers start at Fourteenth Street in New York and go right through to Fifty-ninth Street, and go to every store and see if they could find a stock of men's white broadcloth shirts of any make in any store.

Mr. WALTER. Isn't that because those materials that formerly went into them are being made into sports shirts and different things wherein they can get a bigger profit?

Mr. SEIDEL. No; it is because no broadcloth of any kind is being produced at all.

Mr. WOLVERTON. Why?

Mr. SEIDEL. Because, I think, of unsatisfactory price ceiling on it.

Mr. WOLVERTON. Do you think it is due in any way to a desire to wait until after the first of the year to have the benefit of tax laws?

Mr. SEIDEL. No; because they are producing other goods now instead of the broadcloth.

Mr. WALTER. Mr. Elliott, would you like to ask a question?

Mr. ELLIOTT. Yes; I think one or two would be worth making.

Isn't it true that the combed yarn mills (cotton) as a whole had about 50 or 60 percent conversion to make all sorts of things for the Army, including covers for sleeping bags—in an amount, by the way, that I protested about?

Mr. SEIDEL. Yes.

Mr. ELLIOTT. As a matter of fact, that you had not had available the type of production because you didn't have the type of facilities to produce and you didn't have the yarn to put into it—

Mr. SEIDEL. The war has been over for some time.

Mr. ELLIOTT. You are a merchant, and I have had the advice of your company in my set-up, and it has been very helpful, and I don't want to disagree with much you have said.

But it takes 3, 4, or 6 months to move that kind of stuff from the yarn to the shelves, and get the effect of it, doesn't it?

Mr. SEIDEL. I am quite sure, but—

Mr. ELLIOTT. If you were looking for shirts today, you would look back and find out what was happening about 4 months ago?

Mr. SEIDEL. Yes.

Mr. ELLIOTT. And during that period the armed forces have been buying and were allocated the lion's share of production. I understand that it was about 2 months ago that the armed forces stopped acquiring this type of material.

Mr. SEIDEL. Yes; but only last week we had one of our men interview one of the biggest producers in the United States of broadcloth, and they are not making a yard right now.

Now, will we get shirts if they are not now making them, if this man is an important factor in the business? You know better than I do about this broadcloth and piecegoods situation. You have been much better able to advise the committee about it.

Mr. ELLIOTT. I wouldn't pose as having kept up with it. I don't believe the price factor on combed goods was a heavy factor, and probably is not today.

What you are really saying, Mr. Seidel, is not, I hope, that there isn't a tremendous scarcity of goods.

You were saying that the mills produced as much. Actually, the mills haven't yet gotten up on textiles to anything like a normal year, and certainly not like 1943 or 1944.

They were shy at the rate of about 2 to 3 billion linear yards of cotton textiles this year as against 1943.

Mr. SEIDEL. I didn't give the answer on mills. He asked me a general question about all of the production of goods.

Mr. ELLIOTT. It has to come from the mills.

If you don't get yarn, then you don't get goods. Or a variety of factors, including the fact that the textile industry hasn't been able to get people back, perhaps because of price factors.

Mr. SEIDEL. I wasn't thinking only about textiles, either.

Mr. ELLIOTT. We are talking about textiles here pretty largely, and I should like to nail this one down.

It is fair to put into the record, surely, that the real difficulty is that you have an extreme shortage for a backed-up consumer's demand that has been existing for a very long time.

Now, would you propose to take off price control in that kind of market and let the manufacturers of garments and the manufacturers at the mill level set their own prices in what is obviously still a big sellers' market?

Mr. SEIDEL. Absolutely not, I didn't suggest that.

Mr. ELLIOTT. Price controls, we are all agreed, have to be maintained. Is that right?

Mr. SEIDEL. Yes; I quite agree, except—

Mr. ELLIOTT. The type of price control—

Mr. SEIDEL. It has to be changed.

Mr. ELLIOTT. The type of price control that you are concerned about as I gather, your concern is, and I think you could be backed up by quite a lot of evidence, is that there is such a quality deterioration that you have had a tremendous inflation of prices at the consumer level.

Mr. SEIDEL. Yes.

Mr. ELLIOTT. And that the OPA controls have not been effective.

Mr. SEIDEL. Yes.

Mr. ELLIOTT. Now, has the low-end program of WPB and OPA gone out legally? Has that control been taken off?

Mr. SEIDEL. No, there is still a low-end program, but it isn't effective for a number of reasons.

Mr. ELLIOTT. We will develop those with you because I think we will agree on many points.

When you take a mill that can manufacture 90,000 dozens like the one you mentioned—

Mr. SEIDEL. Yes, sir.

Mr. ELLIOTT. Is there enough cloth under the allocation of WPB to furnish that mill its full capacity and furnish its competitors equally the full capacity?

Your point is that—

Mr. SEIDEL. There is sufficient.

Mr. ELLIOTT. He may tell you he can get the cloth, but he can't get it under those allocations.

Mr. SEIDEL. This man, I believe, has the cloth.

Mr. ELLIOTT. That is quite a different problem.

Mr. WOLVERTON. It is probably the reason I suggested.

Mr. SEIDEL. Not at all. He has said he would make these goods if he could have a price of 93 cents, and OPA says he can't have a price of more than 71 cents.

Mr. WALTER. What percentage of profit did he make on the 71-cent garment?

Mr. SEIDEL. He claims that he loses money if he makes the 71-cent garment.

Mr. WORLEY. But he still made 7,000 dozen?

Mr. SEIDEL. Yes; instead of 90,000 dozen.

Mr. WORLEY. He allocated the rest of the material to producing high-cost goods?

Mr. SEIDEL. No; he is operating 17 percent of capacity.

Mr. WORLEY. I was under the impression that when OPA refused to grant him an increase on the children's wash goods that he devoted the balance of his inventory to the production of high-cost goods.

Mr. SEIDEL. No, he didn't.

Mr. WORLEY. He is operating at 17 percent capacity?

Mr. ELLIOTT. He has the inventory to operate at 90,000 dozen, he tells you that?

Mr. SEIDEL. Yes.

Mr. ELLIOTT. Now, the point you are making essentially is that the people who can get the goods under allocation can do it.

But there is a point, under the Reconversion Act, the War Production Board has to allocate to newcomers as well as to the old people in the market, even though the newcomers may not be as qualified to produce a good article.

That is a legal angle that has caused a good deal of trouble.

The OPA's method of pricing has in some instances played into the hands of the newcomers, where they get an in-line pricing that makes it out of line with the people who could produce cheaper goods at cheaper prices.

Mr. SEIDEL. Well, yes; I would quite agree with that.

Mr. ELLIOTT. Wouldn't the remedy be to allocate goods to people who will produce low-end goods under quality specifications?

Mr. SEIDEL. Yes; and the OPA approach was a very effective approach, and was successful to the degree that it was applied.

Now, when they made the mistake of not ear-marking the goods for the prices that were actually needed, the program got out of hand.

Let me cite an example. In womens' dresses, 44 percent of the dresses are made at \$3.75. Thirty-two percent additional are made between \$3.75 and \$5.75. So that you would have a total—I am talking now of normal prewar sale of dresses, and I am talking too about wholesalers' prices, manufacturers' prices—\$3.75 and \$5.75 accounts for 76 percent, and then we go up in price, and when you get to \$12.75, you have covered 94 percent of all the dresses.

Now, when the War Production Board set cut-off point at \$12.75, you see, and gave every manufacturer all the way to \$12.75 the same right to get goods, the program was a failure because it meant that 94 percent of people had a priority.

I mean, for instance, a medal becomes meaningless if 94 percent of the people have that medal. A priority is useless under the same circumstances.

Mr. ELLIOTT. They were given a quota of that production, a percentage quota?

Mr. SEIDEL. Yes; but you will agree that had WPB been able to make a certain set-aside to the people that made \$3.75's and given them an allocation to make \$3.75's—

Mr. ELLIOTT. It was done in very wide limits. There was about 40 percent on the strictly low-end stuff. Many people wanted to do more.

Mr. SEIDEL. If the WPB had said that we are going to confine this to \$3.75, you would have had all the \$5.75 manufacturers in New York down here with their Congressmen.

So they take them in, then we take in a little higher, and a little higher, and then you get all the way up to \$12.75, and then you have got a lot of \$22.50 dresses in the store, but that isn't what people really need. The low-price consumer ought to be able to buy dresses for \$4.95.

Mr. ELLIOTT. Now, just one question more.

Allowing for the fact that you have put on the record, and I think it probably could be substantiated, for heavyweight underwear, though I don't think you are right about all other underwear, but I think the proposition about the heavy underwear was right.

That is to say, OPA pricing on low-end heavy underwear did in fact prevent production for a considerable period.

Mr. SEIDEL. Yes.

Mr. ELLIOTT. That is your testimony?

Mr. SEIDEL. Yes; winter underwear.

Mr. ELLIOTT. That has been very slow in being remedied, and I would be the last to deny that. But doesn't this recent low-end directive of the OPA look in that direction, 15 percent, that was rather more than the manufacturers allegedly need?

Mr. SEIDEL. In the new directive program which granted the 15 percent, they have a series of cut-off prices. All underwear doesn't get a 15 percent, and underwear made up to a cut-off price—now, let's take men's union suits under 9 pounds.

In that garment, the cut-off price was \$6.62, and the Standard Knitting Mills tell me it has to be around \$9 or the program won't be any good.

Mr. ELLIOTT. Of course, the stuff under 9 pounds is not heavyweight underwear, and you have got to have heavy-weight because of the shortage of yarn.

Mr. SEIDEL. That is the only underwear in it, that I am reading about.

Mr. WOLVERTON. Maybe you technical men had better explain 9-pound underwear.

Mr. SEIDEL. Nine pounds to the dozen.

Mr. ELLIOTT. I don't want to continue this, but I do want to get the point across that there is a shortage, which I think Mr. Seidel will admit.

Mr. SEIDEL. Yes.

Mr. ELLIOTT. If you are going to put yarn into the right part of the picture, you are trying to get them into the heavyweight underwear, because there has been no—

Mr. SEIDEL. The only underwear covered in Mr. Bowles' new order, SO-139, is men's union suits under 9 pounds to the dozen. That is the only underwear.

Mr. ELLIOTT. Does not cover the heavyweight?

Mr. SEIDEL. Not in this order.

Mr. ELLIOTT. I am sure that should be covered.

Mr. SEIDEL. He has issued an order along this line, permits the underwear people to apply to him for price relief on the heavier-weight underwear.

Now, the people have made their applications for that price. They hope to get that price, and right now on the fourth-quarter allocation that we are going to get of underwear, we are going to take that underwear on open billing. We are going to take the underwear from the mill without knowing what we are going to pay the mill for that underwear.

We are going to sell it to the customer at the price we always sell. We hope we won't come up on the short end.

Mr. ELLIOTT. I just wanted to get into the picture that there was a shortage here that had somehow to be controlled.

I believe Mr. Seidel's point is that the quality deterioration in low-end goods has in fact produced a great up-trading or up-grading. Some of that would happen under any conditions where people could make higher profits in a shortage market, and unless you maintain control of the flow of the goods and price ceilings, you would have a greater up-trading.

Mr. SEIDEL. Yes, but I think it has been aggravated by several of these regulations.

Mr. GIFFORD. Does Mississippi have a good unemployment compensation law? I am a little worried about this take-home pay.

I represent a textile city, and I am interested.

Mr. SEIDEL. Yes, sir.

Mr. GIFFORD. We ran up to 65 cents minimum, didn't wait for the law.

Take-home pay is greater. The cost is greater. You gentlemen are not worried because I can see all of you wearing smiles.

You voted on that excess profits tax—

Mr. LYNCH. I say we made a mistake.

Mr. GIFFORD. We didn't, but you fellows made a lot of mistakes. Don't look serious, I don't see it.

I am greatly interested in the fact that my people have been forced to deteriorate goods in order to manufacture, and you claim, do you not, that you say there is great deterioration of goods?

Mr. SEIDEL. Yes, sir.

Mr. GIFFORD. And they found something new that isn't yet under price ceilings, and they started to manufacture something similar, but where they can make a profit?

Mr. SEIDEL. That is quite right.

Mr. GIFFORD. A great deal has been done, and, of course, you have made money on women's dresses because we have always made a lot of money on women's dresses, and they can't confine you, can they, to any type of dress? You can make something else and charge more, can't you?

Mr. SEIDEL. No; they can't confine us, and there is virtually no price control in these high-style items. They have regulations that say to hold a manufacturer to the highest price line that he used to produce, but there is nothing to stop him from making any type of dress for that price.

Mr. GIFFORD. You always mark down 100 percent on women's dresses whenever you want to. The prices on women's dresses, gentlemen—there is a fearful profit.

Mr. ELLIOTT. For that reason, a good deal of cloth was taken away from the women's dress manufacturers and put into the other things.

Mr. GIFFORD. They can just put on another ribbon——

Mr. ELLIOTT. If they get more cloth, it is outside the order. You have agreed, haven't you, Mr. Seidel, that the way to cure this is to direct the cloth into low-end programs?

Mr. SEIDEL. I think the cure for this has got to be to give that manufacturer a price that will enable him to defray his permanent current costs and yield him a profit similar to what he made before the war.

That is the main thing that needs to be done.

Mr. ELLIOTT. I won't try to dispute what you have said. OPA should be heard. But——

Mr. SEIDEL. That is the primary thing, rather than allocations.

Mr. ELLIOTT. If you don't have the allocations, wouldn't it remain true that the cloth would go into the higher-priced garment because of the market pull that people could pay for it?

Mr. GIFFORD. I want to make a point very plain, if I can, that this answer, "Inflation, inflation if you do this and do that"—is such nonsense. A fair price doesn't make inflation. They drive it into something else where they are fooled worse.

They are imposing upon the public. There is no question about it. I want this committee to make a statement that inflation should not be used as the excuse granted for much of this that is being done, because it is not inflation.

I can't express myself as I would like to about it, but I could get voluble after I got my wind on it, maybe.

Mr. LYNCH. Would you call it "highway robbery of the public" instead of "inflation."

Mr. GIFFORD. You can raise wages 30 percent, but that wouldn't be inflation. But I want to say that inflation is what we constantly hear, but it isn't inflation at all when supply and demand force conditions because they have to stop. They won't manufacture at a loss, but they will manufacture some other things that the public will have to buy and even pay more for.

That is so comforting to hear you say. I tried to buy heavy underwear to go to New England, and couldn't get any. You are very comforting to say that I can get it next spring.

Mr. SEIDEL. Let me, while we are talking on underwear, just give you these figures on underwear 3 years ago—our inventory of underwear on November 1 was \$2,400,000. This year on November 1, our inventory on underwear is \$204,000. It is 10 percent of what it was 3 years ago.

Last year it was \$640,000. Our inventory now is less than half of what it was last year, and that covers all types of underwear.

Mr. WALTER. And had the demand of the military for heavy underwear gone on for another 2 months, it would have been half of that.

Mr. SEIDEL. If they had been given a fair price 3 months ago, we wouldn't have been in that situation now.

Mr. ELLIOTT. I think it should have been done before 3 months ago.

Mr. SEIDEL. Yes, long before.

Mr. WALTER. May I interrupt at that point?

Aren't these manufacturers permitted to charge now the same as they charged the military forces?

Mr. ELLIOTT. No, sir.

Mr. SEIDEL. I don't know.

Mr. ELLIOTT. I can help Mr. Seidel to that degree. The military forces were given quite different price schedules from civilian underwear. And in the heavy-underwear field, I think there is much to be said, but I want to make it clear that the other side of the picture needs to be considered. The OPA has a case that it should put.

When you have a scarcity proposition, you don't cure it by taking off all controls. I think Mr. Seidel is ready to agree on that.

The controls should be used with more discrimination.

Mr. SEIDEL. So they won't drive people out of business but let them make a profit on a legitimate low-end item.

Mr. GIFFORD. When we set up the OPA and we were promised faithfully by Mr. Henderson at that time—we knew he was to be the head of it—that no prices would interfere with production.

We harped on that, and it has interfered very greatly with production.

I am for price control, but the price of price control that allows goods to be manufactured—

Mr. WOLVERTON. I would like to get the explanation of Mr. Seidel. I realize from what he said that he must be in a position to know what he is talking about.

Mr. GIFFORD. You agree with Mr. Elliott, wouldn't you?

Mr. WOLVERTON. Yes. I wish we had more like Dr. Elliott around.

Mr. ELLIOTT. I will bow out.

Mr. WOLVERTON. The point I had in mind was this: If I understand your testimony correctly, it would seem that there is a tendency to manufacture the higher-priced goods because the profit is more acceptable or more certain.

Now, is that the only explanation that you can give of it?

I have in mind a picture that appeared in one of the papers this morning. I didn't have time to read the article, but I saw a picture of an exhibit that was stuck up over in the Senate Office Building where there were two women's waists which were alleged to be identically the same from the standpoint of quality. One had been manufactured by an established company and the price was figured at \$1.86½, whereas the other was manufactured by a new company and it was in a position to charge \$6 for an article that the long-established company could only charge \$1.86½ on.

Is that possible under present controls?

Mr. SEIDEL. Well, yes, sir.

Let me take the particular item you are talking about, women's blouses, and tell you just how it happened.

A very reputable large manufacturer of topper blouses for women has under the MAP plan, the maximum average price plan, a regulation that tells him that his total production has got to average, and I will give the figures from memory but I think they are accurate, \$1.87½. His total production must average \$1.87½.

That manufacturer can produce a blouse for \$2.50, which would sell to consumers at approximately \$3.75 to \$3.95, depending on the store, but he is not permitted to make that unless to offset his production, he produces other blouses for enough below \$1.87½ to make his average come to \$1.87½. So, he can't make that blouse for \$2.50.

Now, in the particular case you cite, a firm started in New York approximately 5 or 6 months ago. It is headed by refugees. They

have got price ceilings on blouses that are no better than this man could make for \$2.50, of \$6 and \$10.

The \$10 blouse is now selling in the large retail stores for \$17.95.

The \$6 blouse is now selling in the large retail stores for \$9.95.

Blouses as good as either the \$9.95—and there is no difference much between the \$9.95 and the \$17.95—intrinsically there is no difference in the value, and all you gentlemen can go to the Senate building and see these items.

There is no difference at all between those two blouses, and still the consumers are paying \$10 for one and \$17.95 for the other, and they could have one identical to those for \$3.95 if it was not for this maximum average price thing.

Mr. WOLVERTON. Is it due to preference being given to a new manufacturer who hasn't established himself in business?

Mr. SEIDEL. I don't think these things on the part of OPA are deliberate. They may be common ordinary mistakes that are made because OPA couldn't possibly have the type of personnel that were qualified to determine the price of an article that was brought to them.

Mr. WOLVERTON. You are familiar with these rules and regulations.

What is the rule that will permit a new manufacturer to charge the prices of \$6 or \$9 or \$17 as against an established concern who is limited to \$1.87½?

Mr. SEIDEL. Well, these men come into business and somehow they get the highest price or a maximum average price allowed them that is much higher than the other man.

Mr. WALTER. Just a minute. We asked the same question before you got here, Mr. Wolverton, in which you said he got the price because he was able to show some manufacturer was making that price.

Mr. SEIDEL. That is right on a great many products, but regulations are a little different in blouses than they are in flatirons or furniture. There are thousands of regulations that will vary.

In the sale of electric irons, for example, a man comes to OPA——

Mr. WALTER. I asked you about the same question that Mr. Wolverton did.

Mr. SEIDEL. I wasn't talking about blouses.

Mr. WOLVERTON. I am trying to get at the point that a new manufacturer who has never had an established line in the past, does he get a preference over the old?

Mr. SEIDEL. Of course he does.

Mr. MURDOCK. Doesn't that arise out of the law itself, which bases prices on an earlier price?

Here comes a man who has no historical background, and the law perhaps permits him to get an advantage there.

Mr. SEIDEL. Of course it does. That is quite right. Let's take a Long Island producer as an example.

During the average peacetime years 5,000,000 irons approximately were sold in this country, and about half of them were sold for prices under \$3, and the other half were sold at prices over \$3.

In our particular business, our fastest selling price prewar was \$2.29 for an electric iron. Now the electric iron order of OPA has been out about a year, and since it has been out the production of electric irons to sell to consumers for less than \$3, has been practically

zero. I think it has been actually zero. I don't think anybody has produced any.

We deal with several of the largest ones, and I know that our suppliers have not made one single iron.

Why is it? OPA in the case of Nelson Electric Co. in Cleveland—and that is a large one—say to them that they have to make that iron at a cost of \$1.20, including the excise tax. They do that after looking over that company's books, OPA comes to the conclusion that he can make it for \$1.20.

Now, the manufacturer says he can't make that iron for \$1.20, but that he can make it for \$1.55, including the excise tax.

Now, the excise tax is some 10 percent, I think, so his net would be \$1.40. OPA refused to, consistently—to give the \$1.55 and no irons are being made.

Now a man in Bay Shore, Long Island, got out of the Maritime Service, went down to OPA, and he went down to WPB and got an allocation from WPB and a price from OPA to make irons.

He had never made irons before excepting in 1923, some time in 1923 he was connected with somebody that did make electrical appliances, but this is a brand new company that he started—

Mr. WOLVERTON. And had no books.

Mr. SEIDEL. He went to OPA and got what is known as an in-line price for an iron not as good as the iron that could be made for \$1.55, but he got an in-line price of \$3.40. He has produced over 150,000 irons at that price.

That iron is being sold to the housewife at \$5.50.

Now, we took six of his irons and sent them to the Electrical Laboratories in New York for testing because the cord had no underwriters' label on it, we wanted to be sure it was good before we sold it.

Four of the six failed on the test.

The Electrical Laboratories in their report, which has been made available to your committees down here, they said the iron was hazardous and we had better not touch it, and we didn't.

There is an example of in-line prices.

Mr. WALTER. In line with what?

Mr. SEIDEL. With some iron that somebody made somewhere at that kind of a price some time before.

Now the man from Bay Shore said to me, not to me but to one of my buyers, I want to be factual, "Why does your man keep picking on me? There is a fellow down in Tennessee who makes an iron worse than mine and still gets a higher price."

Now he says, "I know my iron is overpriced, but I am a little fellow. I have got to have a high price if I can make it at all."

OPA was going to have that man in jail in 6 weeks. He is a fraud, "We are going to prosecute him for fraud." That is no good either.

The OPA said he came down here and presented to them a nickel-plated iron, and he went down and made a black iron. And they are going to prosecute him for fraud.

We got to checking, and we found that the WPB had asked this man to make it black, and the WPB wrote him a letter, and he took the letter to the OPA, and the OPA said that it was all right to make it black.

So—

Mr. ELLIOTT. Isn't it true that under the George act, so called, the Reconversion Act, the WPB doesn't have authority to deny a newcomer in a business materials on equal terms, even though in the judgment of the divisional director he may feel that he is not a manufacturer of equal standing and—

Mr. SEIDEL. Please make it as a statement.

Mr. WALTER. That is a fact.

Mr. SEIDEL. I am quite sure it is correct.

Mr. WOLVERTON. We see the same thing in other lines.

Take the question of cigars. You would probably not be able to get a person who didn't smoke to agree it was a necessity, but I went over to the Union News or one of those stands in the station, and I looked the case over and I didn't see a cigar in there that I knew by name.

I said, "Why, I don't know any of these cigars by name." He said: "Certainly not." I said: "How come?" He said: "They change the name and raise the price."

In other words, a manufacturer starts up a new enterprise, he has a new cigar, he gives it a new name, and he gets an additional price.

That is all to the detriment until you have smoked them, of the established lines of cigars held down to regular prices.

It strikes me there is something wrong when a company has established an article that has been generally accepted and its prices are controlled, and a new man comes in, whether it is manufacturing women's dresses, or blouses, or underwear, or cigars, and because he is new he can get a price that tops the established article.

There is just something that doesn't seem to be right about that.

Mr. SEIDEL. May I stay on that for just a minute.

Let's use, for example, screen cloth: Now, so far as I know, none of the people that produce screen cloth are making 16-mesh screen cloth.

Now, a few months ago, not over 6 weeks ago, I guess, I got in touch with our largest supplier, and we sent him a good-sized order for screen cloth. He wrote back and said:

In normal times I would appreciate this order a lot, but as of now I am afraid I can't do anything about it for this reason. OPA has a price on 16-mesh screen cloth—

that means 16 meshes to the inch each—

that I can't produce, and if I were to produce under that order, I would lose between 20 cents and 40 cents for every 100 square feet that I made.

Now, I am attempting to get a price from OPA on a new product—
get this now—

screen cloth that is 18-mesh one way and 14-mesh the other way.

Maybe a mosquito could edge in sideways on the new item.

Are you folks going to continue to countenance a forced cheapening of quality and a lot of subterfuge of that kind for the purpose of meeting a price ticket? That is all you are talking about. If you let them go ahead and let them make the new screen cloth and get a higher price, you are going to have a screen cloth that is different from before. You are going to pay every bit as much as you would if you raised the price to the point it ought to be on the old-type screen cloth,

and for years and years we have found out that 16-mesh screen cloth is right.

Mr. WALTER. You are assuming that he is going to get a higher price than for 16?

Mr. SEIDEL. Yes, sir; and he will because the new item, you see, he will get a price that is based on some kind of a compilation of costs.

Mr. WOLVERTON. He has no books on this.

Mr. SEIDEL. He has no books on the new cloth, and he will come down to OPA and he will make a case, and he probably will get a price.

He should get an increase in price if the old price would make him lose 20 or 40 cents, and if we want screen cloth, we are going to have to raise the price to the manufacturer or we won't have any.

Nobody is going to make anybody in this country produce goods at a loss. They won't do it, and they don't have to do it.

The only answer to it is give the legitimate manufacturer a fair price, put him back into production, and you get goods.

Let me tell you another.

Climax Hosiery Mill is a very fine mill. A large supplier of hosiery. All during the war from 1942 right straight through until about August of this year, that mill was entirely devoted to the military.

Now, he makes men's split-foot hosiery on about half of his machines.

Now, split-foot hosiery is different from other hosiery in that the sole is made separate from the rest. The advantages are that you can use a different yarn in the construction of the base of the hose than you do in the heel of the hose.

You can also make it heavier if you want to. You can use softer yarn, make it easy on the foot. You can use a white yarn.

A lot of people like the white because their feet are susceptible to dyes, et cetera. You can make a heavyweight sole that is more durable, and you can't do that in the ordinary hosiery.

When his Army cut-back came in August of this year, he did exactly what we want every manufacturer in this country to do.

He immediately changed his mill back to making the very same product he made before the war. Identical. Two hundred and forty needle mercerized split-foot hose. The kind of hosiery we haven't had one pair of for 3 years, and we wanted it and we need it bad, and all you people need it.

Now, he read the regulations before he went back into production, and he read Mr. Bowles' statement, et cetera, and he believed every word he read. He thought he could fill out a blank and send it to the OPA and he would get a price that would give his current cost plus prewar profit. And he filed his application and 2 months went by and he had made 20,000 dozen hose in his mill, and he hadn't heard a word from OPA, so he went to Atlanta and found to his surprise that there is no OPA regulation that will give him an increase, none whatsoever.

That his price is \$2.27½ a dozen. Two dollars and twenty-seven and one-half cents is a cost which was the price he sold that hose in 1942 before he put his production into the military. His current cost is \$2.52.

Now, obviously, he can't possibly make hose at a cost of \$2.52, and sell it for \$2.27½, and he stated that that was the case.

They suggested that he might come to New York, that we might be helpful in getting him a price, because we bought a lot of his hosiery.

He got to New York, and so I called the OPA to find out if there was any possible way that he could get price relief on this. And I got ahold of the head of the Hosiery Pricing Unit in the Empire State Building, and he assured us that there was no regulation that will give him relief, for two reasons.

He is not in the red. He hasn't done a dime's worth of business since quitting doing business for the Army. Also he is over \$200,000 a year.

I said to the man——

Mr. WORLEY. What do you mean by "over \$200,000 a year?"

Mr. SEIDEL. They have a regulation that applies to people that sell less than \$200,000 a year, and under certain of those regulations he might have been entitled to relief. But he is a larger mill.

I asked the man in the Empire State Building, just how could he expect to continue without correcting that thing, and he said that mill will have to do what every other mill is doing, make a new number.

"Make a new number"—that is directly out of OPA's mouth. Make a new number.

I said: "Surely you are not serious, we don't want that kind of stuff."

He said: "You will have to talk to somebody higher than me to get a different answer."

I got the very same answer from the head of the Hosiery Division in Washington. The only thing the man can do is make a new number.

"We can't grant an increase on the old number. It is against our policy. It wouldn't be holding the line."

I talked then to Mr. Nye, Deputy Administrator for Price, but I got his head attorney, Mr. Stephen Ailes, and after considerable study he told me that the man might make out an affidavit to the effect that the character of his business has been changed, and then under some other regulation, maybe they could consider him for price relief.

Then he said to me: "If you will write us an amendment to our low-priced goods order to cover this man's situation, we will guarantee you that we will add an amendment in there to cover this man."

Now, that is the kind of regulations you have down here, inflexible, arbitrary, and they just don't make sense at all. We don't want a forced cheapening of quality.

Now this man, if he wants to, can do like all of the other hosiery mills, mix up a little used nylon into the cotton, and make a new number, and he gets a higher price, and you get a different kind of hose than you ought to have.

Mr. WALTER. And probably he will get a higher price than he would have if he had the price he thinks he ought to have.

Mr. SEIDEL. That is right.

I haven't said this morning to throw out OPA. I am coming down here because I think it is good business to come down here.

I believe these recommendations I am making. I think I understand it. You people have to face facts if you want to stop what is happening now. You can't believe everything you hear from OPA.

Mr. WALTER. Would you recommend a general regulation that would permit the charging of a price that would give to the manufacturer the same margin of profit that he made before OPA?

Mr. SEIDEL. Yes, sir; the same percentage margin that he made before the war, plus his present permanent costs of operation.

Now, I am not talking about——

Mr. WALTER. That would all be taken into consideration in determining his percentage of profit.

Mr. SEIDEL. OPA will not allow his current costs.

Mr. WALTER. I am talking about a new regulation under which he would be permitted to manufacture at the same percentage of profit and that would compensate his additional costs of operation.

Mr. SEIDEL. You would have to say to OPA that you require them to give this man his current costs plus his prewar margin of profit. That is the only way you can word that thing and have it mean what it says, no quibbling of words.

Mr. ELLIOTT. May I ask a question about that?

Mr. WALTER. Yes.

Mr. ELLIOTT. That is a very important recommendation and goes to the heart of the matter.

Mr. SEIDEL. Yes, sir.

Mr. ELLIOTT. Take the case of fellows who were making a loss before the war.

Wouldn't you give them, if you are going to treat them under this proposal, some sort of thing in which you would say an average over a 3- to 5-year period, either of the industry or of the company, whichever was lower?

Mr. SEIDEL. Not "either of the industry or company, whichever was lower," because if you had a manufacturer whose profit was higher than the industry, you wouldn't want to give him the industry average.

Mr. ELLIOTT. If he has an increased volume of sales, there might be something in that average.

A great many of the manufacturers are thinking in those terms.

Mr. SEIDEL. I would give him his own profit or the industry, whichever is higher.

Mr. ELLIOTT. Then, aren't you really writing him a cost-plus proposition?

Mr. SEIDEL. I wouldn't want to write in a cost-plus proposition. I want to make it fair.

Mr. ELLIOTT. How does your proposition differ from cost-plus?

A price which in effect says to him: "Now, you can charge up to cost-plus previous profits—and given the fact that your volume, your production and sales are going up"—and in some lines has gone up——

Mr. SEIDEL. There are a number of ways you could do it. Specify a percentage for the people that lost money and let other people use their own.

Or, if anybody operated at a loss, give them whatever you wanted to give them, whatever you wanted to, 2 or 3 or 4 percent, whatever seemed to be a normal figure.

Mr. WALTER. That man probably operated inefficiently to the extent that he would likely price himself out of business.

Mr. MURDOCK. I am a novice in physical science and in economic science. I just had the gizzard scared out of me yesterday.

I heard an amateur scientist say that somebody was apt to touch an atomic match to the atmosphere and might blow it up and the ocean might blow up the same way.

I went over to the hearing and I heard an expert say that isn't apt to happen.

Mr. WALTER. You feel better now?

Mr. MURDOCK. Yes; but we are dealing with the same sort of super-dynamite in economic matters as in atomic matters, and I am really confused. I just don't know what we can do here.

Mr. WOLVERTON. I am a bit confused.

Let me put another case to you.

Mr. SEIDEL. Yes, sir.

Mr. WOLVERTON. You have stated that by changing the number or the mesh that it would be possible to get some price relief.

Now, you take by way of illustration a Webster Fancy Tail was 15 cents when war started and went up to 17 cents later on. Then, it went up to 20 cents, and within the last 2 weeks or so it has gone up to 22 cents.

It is the same cigar.

Now, how do you say that was arranged?

Mr. SEIDEL. I don't know. Perhaps they have granted particular price relief to that company.

Mr. LYNCH. Maybe they added a sixteenth of an inch.

Mr. WOLVERTON. Maybe they did. It is now 22 cents where it was 15 cents, and it is an established article.

Mr. WALTER. We had better stop at this point, or you will have me referring about administrative absolutism.

I think we had better adjourn.

Mr. WOLVERTON. Then, could I get an answer to my question later on?

Mr. WALTER. Yes.

Mr. Seidel, we are deeply appreciative of your interest in this matter, and for your very fine contribution.

Mr. SEIDEL. Thank you, sir.

Mr. WALTER. Yes, sir.

The committee is adjourned.

(Whereupon, at 12:20 p. m., the committee adjourned.)

POSTWAR ECONOMIC POLICY AND PLANNING

WEDNESDAY, DECEMBER 12, 1945

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POSTWAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met, pursuant to call, at 10:30 a. m., in room 1012, New House Office Building, Hon. Francis Walter (chairman pro tempore) presiding.

Present: Representatives Walter (chairman pro tempore), Voorhis, Gifford, Wolverton, Hope, LeFevre, and Simpson.

Also present: Marion B. Folsom, staff director; and Edwin B. George, consultant.

Mr. WALTER. The meeting will now please come to order.

Mr. Flanders, I must apologize but other standing committees of the House are in session this morning, and unfortunately for the committee, we can't have a full attendance.

Mr. FLANDERS. That is understandable.

Mr. WALTER. Will you proceed with your statement, please.

Mr. FLANDERS. Can you shoot a sitting bird? If so, this bird will sit.

Mr. WALTER. Oh, yes, indeed.

STATEMENT OF RALPH E. FLANDERS, PRESIDENT OF FEDERAL RESERVE BANK OF BOSTON; PRESIDENT (ON LEAVE) OF JONES & LAMSON MACHINE CO.; CHAIRMAN OF RESEARCH COMMITTEE OF COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. FLANDERS. For the record, I am Ralph E. Flanders, president of the Federal Reserve Bank of Boston, president—on leave—of Jones & Lamson Machine Co., Springfield, Vt., and chairman of the research committee of the Committee for Economic Development.

In the latter capacity, my associates and I have been engaged for some months past in a study of the problem of the removal of wartime controls, and we published a report on that subject last April.

We were fortunate enough to foresee some of the problems which we are now facing. As a background, I wish to read a few paragraphs from that report.

Mr. WALTER. The Judiciary Committee of the Senate yesterday afternoon reported the bill extending the War Powers Act for a year. The House extended it until June 30.

Mr. FLANDERS. Yes, sir.

Mr. WALTER. Excuse me.

Mr. FLANDERS. Now, I will read certain quotations:

As the CED has stated, the objectives are high consumption, high production and high employment.

It is assumed, also, that our objective is to attain these within the framework of a vigorous and expanding economy in which the great volume of jobs will be provided by free private enterprise.

The committee believes that these objectives will best be served by the ending of all wartime controls as soon as the emergency needs for them have ended.

At the same time, it must be very clear that no control should be removed at a time when its removal would jeopardize * * * the successful transition to a healthy peacetime economy.

Adoption of any war-born control as a normal peacetime measure is a question to be considered separately and legislated in the light of peacetime conditions; no such control should be allowed to persist just because it is there, or because it worked well during the war.

For some controls the emergency may largely end with victory in Europe (VE-day); for others with victory over Japan (VJ-day); for others, especially antiinflation measures, it may extend for a considerable period thereafter. In some fields gradual steps will be necessary; for example, control of materials should end selectively as each material is released from war use or becomes sufficiently available for civilian use; * * *. The objective should be to time and coordinate action in such a way that our economy can land on its feet, prepared to go places.

The committee endorses the progressive and selective relaxation and ending of controls. It rejects two other possible alternatives: (a) That all controls be removed suddenly with the ending of hostilities; (b) that all controls be rigidly maintained for a given period after the war. Sudden removal might open the door to wild price inflation, then steep deflation and heavy unemployment. Arbitrary continuation of all controls would retard the attainment of a high level of production and employment.

The objective is a level of prices high enough to induce the required expansion of production and employment, and low enough to maintain the necessary consumption under normal conditions of demand and supply.

The more nearly that objective can be reached the better. The attaining of this objective under price control will depend not simply upon price administration, but also upon materials, facilities, and production during the control period.

* * * on some controls—production controls for example—action must not wait beyond (the period of need for war production) if high civilian production and employment are to be reached at the earliest possible moment. Other controls, notably those affecting prices, may have even an increased importance for a period after production controls are ended. They will be our chief protection against inflationary pressures in the transition period while production is being expanded, inventory pipe lines filled, and excess demand induced by wartime savings is being worked off. Since it will be wise to remove some controls promptly after war production needs are satisfied, there is sure to be a demand for the unwise early removal of others which can perhaps serve their greatest usefulness after actual fighting has stopped.

At the end of the transition period as determined by Congress, legislative authority for the last of the wartime controls should be ended. Action beyond that period is a question of the place of controls in a peacetime economy and is beyond the purview of this report.

That is the end of the quoted paragraphs from the earlier report.

The experience of the 8 months since that report was written has on the whole confirmed us in the views we then held. The intervening time has only emphasized the difficulties in the situation.

One fact of great significance which could not have been predicted with accuracy last spring and which has only recently become clear is that we are already in the early stages of inflation. Unemployment is low, while civilian employment is already at the highest peacetime level in our history.

Inability to satisfy the demand for goods and services remains almost universal.

Now the figures given out, I believe last night—I just got them this morning—as to employment and unemployment, show that we have 52 million people employed, which is far and away the largest we have ever had under peacetime conditions.

And 1,500,000 unemployed, which, I believe, is about the lowest unemployment we have ever had in peacetime history.

Mr. WALTER. Doesn't the large number of employed indicate to you that a great many people that we felt would be out of employment as soon as the war was over are still employed?

Mr. FLANDERS. But they are on peacetime work.

Mr. WALTER. Yes.

At one of our very early meetings, Mr. Baruch, I believe, gave us the number of people who were employed only because we were at war, people who otherwise would be taking their pensions, the wives of servicemen, and so forth.

The fact that employment is so great indicates to me that those people did not do what it was predicted they would do.

Mr. FLANDERS. A lot of them stayed in.

Mr. HOPE. Don't you think a good deal of the unemployment even this small amount, is more or less voluntary?

Mr. WALTER. Voluntary plus the usual unemployment.

Mr. HOPE. Yes; transition unemployment.

Mr. WOLVERTON. How are statistics as to those employed and the number of unemployed arrived at? For instance, take the case of an elderly man or a woman who has worked during the war period for patriotic or other reasons. With the completion of the war they have left that employment. Is that housewife or that elderly man considered an unemployed person?

Mr. FLANDERS. Mr. Myers of our staff, who is sitting here on my left, is, I believe, a competent expert on employment and unemployment statistics, and I would want to refer that question to him.

Mr. MYERS. The woman who has come in during the war will not be counted as either employed or unemployed if she doesn't have a job and is not looking for a job. It is only if she reports that she is looking for a job that she gets into the figures as either unemployed or if she has a job, as employed.

Mr. WOLVERTON. How do you get knowledge of cases such as that so that you can determine by millions or have millions the number of persons employed or unemployed?

Mr. MYERS. The Census Bureau takes small sample surveys of employment and unemployment. The principle is the same as the Gallup Poll and Roper Poll. The figures from their sample are then multiplied to give an estimated figure for the total population. That method has proved quite accurate in both the private and Governmental polls.

Mr. FLANDERS. It has been far more accurate so far as unemployment is concerned, than the old method previously used, which assumed a figure of those who were in the working force, calculated how many of them were employed, and subtracted that from the total to get unemployed.

That method of getting unemployed by residual figuring was very crude and inaccurate.

I think I am right in this.

Mr. MYERS. Yes.

Mr. WOLVERTON. Could we look at it from the standpoint of the number employed at the peak of the war effort and the number who are now employed? Would you be able to give any figures on that basis?

Mr. MYERS. I can give them approximately.

If we exclude the soldiers—they are not in the civilian labor force—

Mr. WOLVERTON. When you say "exclude soldiers," I haven't said anything about soldiers in the situation that I gave as a basis for our figures. I say, take the peak number that were employed during the war effort and the number that are presently employed, and what is the difference between those two figures, if any, at the present time?

Mr. MYERS. The peak number employed producing goods and services during the war effort was somewhat over 54 millions. That was for July 1943. July is the seasonal high month of the year. The highest employment reached for any November during the war was about 52.6 millions. So the figure for this November, approximately 52 millions, is nearly as high as the peak figures during the war.

The reason I mentioned soldiers is that as they return from fighting, they do for the most part enter the labor force, and therefore you have to begin to count them in in the peacetime period as you did not have to do during the war.

Mr. WOLVERTON. I don't see where that makes any difference in figuring in terms of employment.

Mr. FLANDERS. It doesn't in terms of employment. All that amounts to is saying that a lot of people have gone permanently out of the labor force and they have been more than replaced by soldiers coming in.

That puts it briefly.

Mr. WOLVERTON. I agree with the chairman that if the figures, as you have estimated them, anywhere near approach the actual conditions that exist, it is rather surprising in view of what was estimated would be the conditions in the postwar period.

Mr. WALTER. I think it was Mr. Baruch that made that estimate.

Mr. WOLVERTON. I don't remember, but I know we were all more or less agreed to that as a possibility. These figures would seem to indicate that we were all wrong in forming any such estimate.

Mr. HOPE. Before we leave that, I would like to ask Mr. Myers a question.

Mr. WALTER. All right.

Mr. HOPE. How do you carry these demobilized servicemen with reference to your unemployment figure?

Now, there have been somewhere between 4 and 5 million servicemen demobilized up to this time. I haven't seen the latest figures. How do you carry them?

Some of them have gone into industry, of course, and they are included, you say. But a lot of them are not quite ready to get back to work, and they are unemployed. How do you carry them?

Mr. MYERS. As you say, the bulk of them are counted as employed because they are back to work. A small proportion is unemployed because they are looking for a job. Some, probably several hundred thousand, have been discharged but are not looking for a job. They

are taking a well-deserved rest or something of the sort. Those are not counted as either employed or unemployed.

Mr. HOPE. Not included in the million and a half unemployed?

Mr. MYERS. No. Presumptively, most of them will start soon to look actively for a job, and when they do they will be reported first in the unemployment figures, and then in the employment figures. But at the moment they are not in either.

Mr. GIFFORD. May I ask a question?

Mr. WALTER. Yes.

Mr. GIFFORD. Do you believe there is ever a time when 60,000,000 jobs are needed; 60,000,000 people employed and receiving pay?

Mr. FLANDERS. That time has never been. Of course, as population increases, we will approach it.

So far as the Committee for Economic Development is concerned, we have been basing our figures on something around 55,000,000, something above and below that.

Mr. GIFFORD. I take it from a narrow viewpoint, in my community, where I know everybody.

Mr. FLANDERS. Yes, sir.

Mr. GIFFORD. The proportion of 60 out of 140, which would be the same since the population is around 140,000,000, counting my schoolchildren, the wives, the pensioners, there is no such thing as 60 people of out 140 —

Mr. FLANDERS. This 52,000,000 on that basis, even that looks like a pretty high figure, doesn't it?

Mr. WALTER. Yes.

Mr. FLANDERS. It is astonishingly large.

Mr. GIFFORD. I want to make the remark that we had a tremendous amount of statistics in my committee when we set up the OPA, the room was full of statistics, they are only used when people want to talk with exactness of something they know nothing about.

Mr. FLANDERS. I think we void that in our estimate of the possible working force by putting it in brackets.

Mr. GIFFORD. I am not overpowered by statistics.

Mr. FLANDERS. That is fortunate because those of us who are not, I think, will live longer than those who are.

Now, the significance of this very high employment is that it is a fundamental factor, that is, a tight labor situation is a fundamental factor in making it difficult to control prices. As long as there are a lot of people looking for work, it is not easy to step up prices, but when the labor market is as tight as it is now, you have one of the things that tend to a continued expansion in prices.

Prices are pressing hard against ceilings. Only the continuation of price control since VJ-day has prevented a sharp rise in prices in many lines.

Speaking as an individual, it seems to me that our three main objectives for the transition should be:

1. To expand rapidly to high level production and employment.
2. To prevent a major rise in the general level of prices.
3. To eliminate price control.

It is not particularly difficult to achieve any one of these objectives singly, or even to achieve any two in combination.

But achievement of the three objectives in combination does present a serious difficulty, due to the fact that a demand for goods suf-

ficiently large to raise output and employment rapidly will very probably also operate to raise prices substantially, unless prices are controlled.

The basic dilemma is that the continuance of price control for a time, while difficult, is necessary if we are to prevent the present excessive demand for goods from working itself off in a sharp rise in prices.

The necessity follows only in part the pattern of the period following the First World War. At that time scarce materials played a larger part in touching off inflation than is probable at the present time.

Our present danger is more strongly centered on a progressive pyramiding of wages, costs, prices, and cost of living, which will depress real wages, eat away the value of the great savings of the American people, and in the end precipitate us into a depression in which the real as well as the illusory gains of the previous years will be liquidated.

Though a businessman myself, I do not have too much confidence that my fellows or myself can trust ourselves not to take the easy way out. We will find ourselves raising prices in proportion as we raise wages, and thus as employers and employees find ourselves conspiring together against ourselves as consumers.

Businessmen who feel confident of their ability to hold the balances even under these conditions and ask for an early liquidation of OPA are taking on a heavy responsibility indeed. Personally, I would fear to take this responsibility, and believe that continuation of some controls for a limited period is necessary.

The difficulties of extending price control are obvious. The primary one is the complication inherent in so administering prices that production will be stimulated where necessary, particularly in needed marginal capacity, without introducing inflationary pressures. This will require a wisdom somewhat above the ordinary human level and we may as well resign ourselves to the prospect that this wisdom will fall short of perfection at some times and in some cases.

The other major difficulty is a psychological one. We are weary of controls. We long for "normalcy." So strong is this feeling that the black market hovers in the background in many areas of attempted control.

These difficulties can be minimized, and the task of necessary price control brought out of the realm of the impossible into that of the difficult but possible.

One recourse would seem to be an acceleration of the process of freeing large groups of goods and services from further administration. Eliminate as soon as possible all articles which are not important elements in the cost of living, or important materials for industry.

Furs and jewelry are a case in point. They are not necessary to life and liberty, however important to the pursuit of happiness.

There is also the host of knickknacks and sundries—the dime store stuff.

Cut down to the bone of our economic body and protect that only. By so doing, we will simplify the problem of administration and eradicate a thousand petty annoyances which plague the public.

In addition to reducing the area of price control as rapidly as practicable, we should also move promptly to speed up its operation and adjust it, for the remaining period of its life, to the different con-

ditions of the transition. This involves improvements in administration—a streamlining of price control.

It also, in my opinion, involves some liberalization of existing standards. Even the temporary continuation of price control requires the development of standards which do not impede production, which do not violate common notions of equity, and which make possible the day-by-day administration of these standards in a prompt and efficient manner.

The principal suggestion I would be inclined to make would be that where supply is short and could be expanded by moderate price increases this step should be taken. Let us err a little bit on this side.

The reason for the suggestion is obvious. Price control is an unnatural practice. "Sitting on the lid" does nothing to relieve the pressures being generated below. The real way to relieve inflationary pressure is to bring production into a practical working balance with demand. This is fundamental. But we must sit on the lid while this is going on or we will be blown sky high.

It is my personal hope and belief that price control over many—perhaps most—goods and services can be suspended before the expiration of the present Price Control Act.

Price control in any area should be extended beyond that date only after careful study of the facts then available and on clear demonstration of the necessity of such extension.

On the basis of the facts now available, however—particularly in view of the strong inflationary tendencies now apparent—it is not clear that all items can safely be removed from price control by next June 30. The areas in which some limited further extension of control may be necessary include a few raw materials, such as tin and sugar, some durable goods such as automobiles and washing machines, and especially rents and some building materials.

I do not think we need to decide now on any such extension. We can wait and see.

But I do not think we should blind ourselves to the possibility that some extensions, sharply limited as to the items to be covered and as to the period of the extension, may be necessary, particularly if the strong inflationary pressures now generating in the economy continue.

Mr. WALTER. Thank you very much, Mr. Flanders.

Are there any questions?

Mr. HOPE. I would like to ask a question.

Mr. WALTER. Yes.

Mr. HOPE. You speak about taking off the controls in some fields and particularly in the fields of luxury and the dime-store goods and that sort of thing.

Do you think there is any danger that may result in shifts of production from things that we need worse into those fields?

Mr. FLANDERS. There is that danger. Now, the counterbalance to that danger is the millions of returning soldiers, and that is the only counterbalance. We are in the astonishing situation, as compared to what many folks were thinking 6 months ago, that we need those fellows to work, instead of having a question as to whether or not they can find work.

This process of shifting is going to relieve vacancies on essential production, which will make jobs for those returning soldiers.

Mr. HOPE. That was all I had.

Mr. VOORHIS. I want to follow that very point up a little, because in your suggestion that controls be lifted from all except the necessities of life—I hope that can be done—but I am wondering if in keeping controls on the essentials and lifting them on the other items together, there isn't some danger of creating a situation of much greater prosperity in the nonessentials and greater ability to raise wages in those fields.

For example, that would draw people into those fields and out of the fields that you are still trying to control.

Mr. FLANDERS. There is that danger. You have to weigh that danger against the opposing danger of administration of a great complicated undertaking, which might get beyond the possibility of OPA to administer.

Mr. VOORHIS. Yes.

Mr. FLANDERS. You are on the horns of a dilemma and there is no simple, easy, obvious way out. It is a tremendous job, and on the whole it would be my instinct to simplify it and expect that time would begin to remedy some of these unbalances.

Mr. VOORHIS. You would have to have the other thing to ask for, which is administration that would err, if necessary, on the side of getting increased production.

Mr. FLANDERS. Yes.

Mr. VOORHIS. And if you got too involved an administration, then the result that I feared might well take place.

Mr. FLANDERS. It might.

Mr. HOPE. I would like to ask another question.

Mr. WALTER. All right.

Mr. HOPE. You spoke about rent as one of the things on which we should retain controls, as well as some building materials, and I think most people agree that probably the rent controls have been the most successful part of price control, but there has been a lot of opposition generated, of course, to rent controls.

This is particularly due to inequities which seem to exist between rent on property which had been rented over a period of time on which they used a base period—fixed some time in the past—and new construction, and as the situation exists now, according to my understanding, you can't build new construction and rent it—people won't do it.

Mr. FLANDERS. You can build it for sale easier than you can for rent.

Mr. VOORHIS. You can't build it for rent under the present prices and stay within the range of prices under the existing system.

Mr. FLANDERS. What is your understanding of the relationship between rents available for new construction and the cost of that construction?

Mr. MYERS. I think the Congressman is completely right. If rents were held to existing levels, there would be very little new construction for rental purposes.

But as I recall it, a day or so ago, Mr. Bowles moved to meet that difficulty by allowing an increase of, I think, 20 percent in rents on newly constructed dwellings for rental.

Now, whether the 20 percent is sufficient, I don't know, but I would think it is wise to create a differential in those cases, and I gather that OPA has recently moved to do just that.

Mr. VOORHIS. I think you have to do that. But immediately we will have on our neck in Congress everybody who is renting under existing price controls. They will say: "You have a differential here. Here is a man who is offering the same accommodations that we are, and yet you are giving him 20 percent more."

Now, of course, there has been some of that previously in that the Government housing has not been under price control.

You have had right in the same locality a great range in rent, as between Government housing and existing privately owned housing, and that is, of course, one of the things that is going to make administration very difficult from now on as far as rent control is concerned.

Mr. FLANDERS. One expedient which would bring the two into balance in time, starting from an initial unbalance, would be the establishment of a policy of continuous slow increase in the rent ceilings, perhaps 5 percent a year or something of that sort, which would continue on until it brought it into balance with new construction and wiped out the difference.

Mr. WALTER. Should it be brought into balance with new construction?

Mr. FLANDERS. We want eventually to bring it into such a balance that new construction where needed becomes possible over the whole field, over the whole country. In other words, we want to bring it eventually into the balance of free competition as between building new houses or renting new houses or renting old houses.

That is the time when your controls of all sorts disappear. Probably they should disappear before that, as you begin to approach it. But that is what you mean by balance where you have a choice between renting a new house or old house, or building a new house or what have you. Where you have got to the point of free choice in the thing—

Mr. HOPE. The point that bothers me, Mr. Chairman, perhaps there should be a differential between new construction and existing construction, but there is always going to be a difference of opinion there as to how much it should be.

The controls on rent have been so tight all during the period that I am wondering if there won't be so much pressure to take all rent controls off that we may do it before it should be done, and that demand to take them off is going to be accentuated by the fact that there are differences in here.

The strongest argument I have heard against rent control and the hardest one to answer, is that Government housing constructed right in the same locality as private housing has carried a higher rental all the time, or hasn't had any controls.

Mr. VOORHIS. That isn't quite true that it hasn't had any.

Mr. HOPE. I have been told there was none.

You could go into one of these Government programs where you remodel your house and made apartments out of it and you could rent at a higher rate than someone who had to go back to a base period.

Mr. WALTER. As a matter of fact, you had to in many instances because of the charges.

Mr. HOPE. That is true; you had to. But those who were renting on a figure fixed upon a base at some period in the past insisted they

had higher charges also, that all of their charges were higher than they were previously.

Mr. VOORHIS. What do you mean by Government projects where you remodeled your house, FHA?

Mr. HOPE. There was some program where you could get a Government loan. The old-type home-owners loan. You could remodel your home, and maybe make 3 or 4 apartments out of it and the rates you could charge there were very much higher than your neighbor across the street, who was renting an apartment at the time rent controls went into effect.

Mr. WALTER. Why I said the prices were higher was because the lending agency fixed an amortization period, and in it they also made an allowance for a net return to the owner, and in order to meet the payments, plus the return on the investment, there was in many instances, higher rents charged than for similar apartments in that locality.

Mr. HOPE. I don't want to pursue it any further. It is a side issue, anyway. But it is a pretty good illustration of the problem of trying to keep prices controlled where you can't make it universal.

Mr. GIFFORD. Your constituents will pursue you further. They are pursuing me on these building controls. I understand that this meeting is held so that you can advise us so we can advise the Congress. Is that the idea? What committee are we going to advise as a result of this hearing?

Mr. WALTER. I think we are preparing advice for the conferees of the Judiciary Committees of the House and Senate when they pass on the question of the period for controls, the extension of the powers under the Second War Powers Act.

Mr. GIFFORD. Is that the only thing?

Mr. FOLSOM. We have in mind asking Congress to take next year in regard to extension—

Mr. GIFFORD. You want us to advise Congress to take controls off of building industry or something of that sort?

We are getting good advice, but it is only reasonable. There is no reasonableness left. The word "reasonable" has been taken out. First the word "proportional" and now the word "reasonable."

I am interested in some of these things you say:

Even the temporary continuation of price control requires the development of standards which do not impede production—

I was on the committee going into that, on the committee setting up the OPA, and we constantly encouraged those whom we knew would carry on.

Mr. Henderson was our chief witness, with all his statistics, and he promised us over and over again that the OPA would not injure production. Now, Mr. Flanders, you know that OPA does hinder production, don't you?

Mr. FLANDERS. That is a question that isn't easily answered yes or no.

There is no question but that it hinders production in some areas, and there isn't much question but what in others it doesn't. I had something to say on that if I can find it. I have got it here.

This involves improvement in administration—a stream-lining of price control.

It also, in my opinion, involves some liberalization of existing standards. Even the temporary continuation of price control requires the development of standards which do not impede production, which do not violate common notions of equity, and which make possible the day-by-day administration of these standards in a prompt and efficient manner.

The principal suggestion I would be inclined to make, would be that where supply is short and could be expanded by moderate price increases, this step should be taken. Let us err a little bit on this side.

Mr. GIFFORD. Could that be put into legislative form?

Mr. FLANDERS. That is your area.

Mr. GIFFORD. It is our area, but Congress is interpreted by bureaus. We had to grant them power, and we granted them power, to our mortification.

Mr. WALTER. Are there any questions you want to ask, Mr. Folsom?

Mr. FOLSOM. Mr. George might have some.

Mr. GEORGE. I did have some. Members of the committee have asked most of them. However, I have one or two that might be useful in supplementing the committee's inquiries.

Mr. WALTER. Proceed.

Mr. GEORGE. Mr. Voorhis raised the question as to what would be the consequence of a very extensive exemption of small items. You mentioned two things specifically, luxury items and dime-store goods.

The form in which he put the question was whether or not the raising of prices in those areas wouldn't expand the capacity to increase costs and increase wages and thus give rise to local spirals.

I was wondering about this additional point: Do you think there is any danger of a contagion from those areas? Is it possible to take out a specific area of production and say: "Here we will allow freedom and nowhere else?"

Mr. FLANDERS. After all, I think the number of people involved in those luxury items is comparatively small. That contagion perhaps is a reasonable risk.

In the dime-store business, I am inclined to believe that competitive pressures are perhaps fully as much working at the normal level in that sort of stuff as in anything that is being made, and I would be inclined to leave competition as the control in that thing. I doubt with the strong competition of these dime stores against these others, I doubt if that would get very far. And so, on the whole, I would think it is a safe risk to run.

That is a personal judgment.

Mr. GEORGE. I had this aspect in mind: The borderlines. The dime store goes up to the 50-cent store, and the 50-cent store goes up to the dollar store, and on up, and actually the lines of all of them overlap extensively.

Now those stores that carry the low-end items—there have to be calculated risks at some point. I was worried about the low-end items being so generally affected as to give rise for a general pressure for the release of things that were important to the public.

Mr. FLANDERS. There is, after all, a point which is not a point, it is not a line, but when you get, say, beyond the dollar store, you are in

the department store area, and below the dollar store you are in this area, and if I were administering prices, which God forbid, God forbid, I would feel, well that was a little problem; it wasn't the worst problem I had by any means.

Mr. GEORGE. I have only one other question.

Mr. WALTER. Proceed.

Mr. GEORGE. I am asking this because Mr. Flanders is a manufacturer and because he has given so much invaluable time and study to the work of the Committee for Economic Development.

As Mr. Flanders knows, there has been considerable disagreement among industrialists as to whether or not the reconversion formula of OPA has been sufficiently liberal with respect to allowances of cost increases since 1941. For the committee's information, if they are not already aware of it, the OPA allows only the increases in legal labor costs since that period, meaning from the middle of the brackets that obtained before the war to the middle of the brackets at the point at which it rests now.

Industry, on the other hand, has been subject to rising costs through other basic actions. For instance, an up-grading from one grade to another, such as the crowding of employees within any particular grade up to the top of the bracket in which they rest. The issue becomes whether or not those abnormal pressures toward up-grading and toward crowding toward the top of brackets, will recede quickly, and whether they are justified in allowing only the legal costs.

Mr. FLANDERS. I think the basis should be actual costs. Not being competent on all these techniques of price control and knowing that the staff of CED has been making a study, which study is not CED doctrine but nevertheless will be taken into account in establishing CED doctrine, I would like to pass that question over to Mr. Howard Myers, who has been a member of the staff making the study.

Mr. MYERS. I think the basic difficulty is the determination of what are costs, of what costs will be, because in the nature of that kind of an industry, they don't yet know what their costs are.

Mr. GEORGE. Because they are returning to production.

Mr. MYERS. So you are forced to some sort of rather arbitrary determination.

It is obviously extremely important that the reconversion industries particularly be put in a position in which they are able to expand production rapidly. That is particularly important in that area, because they have to increase production frequently from substantially zero to very high levels.

As to whether the existing formula is about right or a little too restrictive. I think it is awfully hard to generalize. In some cases I am sure it is about right, and in other cases it is not. I should think that—I am speaking entirely personally—that a wise approach to it would be to set your standards in the first instance as reasonably liberal standards so that you were sure you were on the right side. Then accumulate your cost experience just as rapidly as you can. After all, that ought not to take so very many months in most cases.

As soon as you have some basis of cost experience, then you can shift from the reconversion formula to the normal formulas.

Mr. GEORGE. You mean to accept manufacturers' estimates of current costs for the initial price and make it subject to adjustment when

cost experience is acquired? In which event the price might be adjusted either upward or downward, at the end of an experimental period of, say, 6 months or 3 months?

Mr. MYERS. Not quite. We start with the fact that there are no current costs in any real sense for the particular production. That is because they are reconverting.

I would think that the general approach, again speaking entirely personally, the general approach used by OPA is about the only type of approach you can use where you have no costs.

Now, whether it is only the so-called legal increases in costs that should be admitted, or whether some increase in general overhead cost, for example, should be allowed, that is the point at which I find it very difficult to generalize.

I would stress the fact of rapid administrative action to take advantage of actual cost data as soon as they develop and get the industry on a reconverted basis.

As to the proposal that you raise or lower costs later in case you made an error in the early instance, it doesn't seem practicable to have a very considerable number of cost decreases.

Now, if you happen to set the cost too high, I would stay with it. If you set it too low, you raise it as soon as you have a basis for judgment.

Mr. WALTER. I regret that I am compelled to announce that the buzzing you just heard is a quorum call, and we will have to leave.

On tomorrow the Deputy Administrator for OPA will testify. I understand he is bringing somebody with him, so that all of the questions that the committee has asked frequently about OPA prices should be answered tomorrow.

Mr. GEORGE. The committee has several times raised the question as to what is being done to insure the production of the right kinds of goods and the ability of producers to obtain the material needed to produce them. I have asked Mr. Maynard of CPA to join Mr. Nye.

Mr. WALTER. Thank you very much.

The committee is adjourned.

(Whereupon, at 11:30 a. m., the committee adjourned.)

POSTWAR ECONOMIC POLICY AND PLANNING

THURSDAY, DECEMBER 13, 1945

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POSTWAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met, pursuant to adjournment, at 10 a. m., in room 1012, New House Office Building, Hon. Francis Walter (chairman pro tempore) presiding.

Present: Representatives Walter (chairman pro tempore), Lynch, Worley, Gifford, Reece, Wolverton, LeFevre, and Simpson.

Also present: Marion B. Folsom, director of the committee; and Edwin B. George, consultant.

Mr. WALTER. The meeting will come to order.

During the course of our several hearings, Mr. Ney, questions as to OPA's pricing policy have arisen that some of the members feel you should be called on to answer. As I understand it, that was the purpose of asking you to appear this morning.

Have you any statement you care to make?

STATEMENT OF JEROME NEY, DEPUTY ADMINISTRATOR, IN CHARGE OF PRICE, OFFICE OF PRICE ADMINISTRATION

Mr. NEY. I have no prepared statement, Mr. Chairman. Your special consultant, Mr. George, asked me to come up, which I am delighted to do.

As I understand it, Mr. George's request, on behalf of the committee, was particularly because of a statement by a Mr. Seidel, before you last week. Mr. Seidel is comptroller, I think, or something, of the W. T. Grant Co., a chain of stores with headquarters in New York, and is appearing for the National Retail Dry Goods Association.

Mr. WALTER. He challenges the accuracy of some figures given by Mr. Bowles. I think that Mr. Bowles stated the retail merchants made a profit of 1,346 percent in 1944 in excess of the profit made in 1939, and that was challenged. Mr. Seidel said it was only 370 percent. I am wondering which figure is correct.

Mr. NEY. Well, that is an interesting thing. Let me say that I am a retail merchant myself, and have been for 22 years; I am still operating stores in the Southwest, in Arkansas and in Texas, and hope to go back to those stores in the not too distant future.

I left them in July 1942 for a 3-month assignment with OPA and have been there ever since. I live on retail store profits and expect to for some time.

The figure which Mr. Bowles quoted in the chart presentation before the Senate Small Business Committee the other day was, I believe, 1,324 percent, not that that makes much difference. Mr. Bowles pointed out very carefully to Senator Wherry that those were not our figures, that they were simply a result which we obtained by taking the published figures of the National Retail Dry Goods Association, who have for many years published a complete study on retail store operating figures. That study is known as the comptrollers' congress figures on operating results of department stores, an excellent study.

Mr. Bowles was then questioned as to the accuracy of the figures, and the National Retail Dry Goods Association sent for Professor MacNair of Harvard School of Business, a very competent gentleman, who also publishes a report on department store figures and profits, and Mr. MacNair came down and testified that the department store profits in relation to the average of 1936 to 1939, and not just of the year 1939, was 564 percent. We said that our interpretation of the figures brought them out at 1,324 percent—obviously one of us was wrong.

The first thing let's do, let's see if we were talking about the same figures. We were. Next thing let's do, is analyze the data itself and see if we have each given the same interpretation, and we found that Professor MacNair had made his comparison on the basis of 1939 only, instead of the average of 1936 to 1939. He had failed to take into account one or two other facts, which he admitted should have been taken into consideration, and finally Professor MacNair said it looked like a figure of nearer 800 percent would be more correct.

I said, "With all that wide range, I don't think we ought to take the time of the committee with argument on the subject, because it is really irrelevant whether profits have increased 800 percent or 1,324 percent.

The committee instructed all of us to get together and go over the figures to see if we could reach an agreement on a common figure, to bring that figure back to the committee, and if there was a dispute, each would state his side of it.

We wanted to make it the same day. It will be extremely interesting to see the actual figure that comes out, not whether retailers have made 8 or 12 times as much as in peacetime, but because every figure we present is subject to attack. But on figures which are a straight calculation of someone else's figures we try very hard to be accurate.

We could furnish a copy of that report, Mr. Walter.

Mr. WALTER. I would like very much to have it.

Mr. GEORGE. Wasn't the reason for the difference primarily the inclusion by Mr. MacNair and by the controller's congress of income from investments as contrasted with the rise in income from operations exclusively?

Mr. NEY. I think that factor was one of the factors that caused some disparity. One side included income from other sources and one did not. I don't remember which included it. That was one of the factors that caused some disparity. One side included income from other sources and one did not. I don't remember which included it. That was one of the factors they will attempt to agree on, whether from an accountant's standard, it should or should not be included.

Being in the department store business, I don't like to argue the point too much. It certainly is no secret that department store profits

throughout the war have been at record levels. The reasons are clearly understandable. I don't feel too badly about it, that they are high, but the reasons for this rise to such heights are interesting.

First of all, retail sales—dollar sales—since 1939, have almost doubled. They have increased 185 percent according to the same reports from which I am quoting. Now, it is a well-known fact that expenses expressed in percentage to those sales never rise in proportion to the sales, when a sales increase comes rapidly.

A great portion of operating expense is fixed, much of which does not rise even though sales volume increases. However, we were faced with an unprecedented situation, with a sales volume almost doubled since 1939, in 5 or 6 years, and due to Government restrictions such as on delivery, ODT regulations, the Federal Reserve regulation "W"—which sets forth prescribed conditions under which you may sell on a credit basis, limiting the time, and thus lessening the expense—many other things coupled with the shortage of labor itself, where most stores have operated clearly undermanned simply because customers have been putting up with poor service. So the cost of doing business in a percentage of sales went down from about 33 percent on the average to about 27½ percent for the same group of stores.

In addition to that, we have been in what is commonly and correctly called "a sellers' market." Goods have been scarce. Demand has been high. Customers, therefore, have not been as choosy. A man used to come into my store and say he wanted a size 42 double-breasted grey suit with a stripe like this one, and he wanted one that had pleats or did not have pleats, depending on his preference. If you didn't have that suit, he would usually walk out and go to another store until he found that suit, and he would usually find it.

Today he walks in rather apologetically, and he says, "Is there any possibility of your having a suit that will fit me? I don't care about the color or whether it has pleats, but I have got to have a suit." As a consequence, you sell most of the goods you buy at the regular price.

In the department store business in the past, due to the highly styled nature of the merchandise carried probably, you had what we called "mark-downs," meaning that if you bought 100 dresses, you sold, let's say, 80 or 85 of them at the regular price and the last 15 or 20 you had to sell for less. The price might be from 10 percent off down to considerably below cost. We never cared what the individual garment sold for. Our only concern was that when we got through, on the whole business, we made a satisfactory profit.

Our mark-downs have decreased terrifically. So the margin, the amount we actually get, has increased.

Mr. LYNCH. You say your mark-downs have decreased?

Mr. NEX. Yes; which means we make more money on what we do sell.

Mr. LYNCH. I thought you meant there has been a decrease in the particular items that were marked down.

Mr. NEX. Well, the number of items that we have marked down have been decreased, though the dollar sales are higher and also the profits are higher.

Mr. SIMPSON. What do you say to a customer when he wants to buy white shirts?

Mr. NEX. I was down in my home in Arkansas about 2 weeks ago and I went down to our men's store, and I asked if we had any white shirts. They didn't have a one. I asked, "When was the last time we had some?" "We had a few dozen yesterday." I asked, "How long did they last?" "15 or 20 minutes." "When will we get some more in?" "Probably tomorrow."

Every day we get in a few white shirts and we get in men's shorts also. We get in some all the time, but we don't get anything like the quantity we need.

Mr. SIMPSON. That makes it necessary for the customer to stand there and wait for a shipment?

Mr. NEX. That is almost true. I am sure you have had the same experience yourself. Maybe you always wore a striped shirt, but maybe that is because you can't get a white one.

Mr. WALTER. From counting the noses around here, I find that the white shirts outnumber the colored shirts 7 to 6.

Mr. NEX. This is a group of Congressmen.

Mr. LYNCH. Those are prewar.

Mr. NEX. I think probably Congressmen can get white shirts.

I think that is the only relevancy of the subject. I'm sure we have more important things to talk about. I think the policy that we have arrived at in the past few months, the standards to judge the extent to which we will require retail stores to absorb increased cost, is a very hot subject. Your mail may be full of letters, particularly Mr. Gifford from Massachusetts, from retailers who say they cannot afford to absorb these increased costs.

I would like to say that the standards under which we prescribe the maximum amount of absorption which retailers take, are in my opinion, pretty liberal, and I would also like to say that so far as I can find, and I will take my own business as an example, and I have also examined the statements of dozens of other stores I regularly look at, and I can find practically no effect on their margins by the cost absorption program which we have.

I know many retailers all over the country intimately, and I have acted as adviser for many stores before I came into OPA. I know that the great bulk of retailers aren't actually concerned about the amount of absorption they have had to stand or even too concerned about the amount they will have to stand in the future.

I think it is a matter of principle with them.

They feel, and perhaps rightly so, that by raising enough fuss and by having their association blast the program and the policy at every opportunity, what they might do is to prevent us from going further than they think should be done.

Now, we have no thought that price increases at the manufacturing level, which must be absorbed in whole or in part by the retailer or wholesaler, will ever have the effect on retail profits of bringing them down to anything like base period profits. Retailers say, and with some justification, that we are going to have heavier operating expenses now. We are going to put back every-day delivery instead of twice a week. We are going to have more credit expense, more mark-downs, much of the goods we have in stock will have to be sold at reduced prices. On future purchases our mark-downs will increase. Our sales will diminish.

When all of those things—long before all those things happen, there will be no price control, because those things happen when supply and demand come into somewhat of a balance and certainly that is the time when price control is not needed. I know the retailers have nothing to fear of an adverse effect on their profits in a normal year.

We didn't seek to make the profit which we did in the last few years. We can still make several times what we ever made in a normal peacetime year.

Are there any questions on that before we move on?

Mr. GEORGE. Mr. Ney, as I understand it, the situation at present is this: You expressed the opinion that the retailers had not been very hard hit by the amount of absorption that they are required to take thus far. That is their own view too, isn't it, that the absorption in 1944, up to 1944, was not very substantial, but that the increases you propose to put into effect, particularly on low-end items, coupled with the return of peacetime expense rates, is going to put pressure on them that they feel will be a little difficult for them to bear?

At what rate do you think the peacetime rates of expenses are returning?

Mr. NEY. Expressed in a percentage of sales?

Mr. GEORGE. Yes.

Mr. NEY. It depends on how volume holds up. (See supplementary letter, exhibit 4, p. 2373.) Let's assume—this is a personal assumption—that 1946 dollar sales in our business will be at least what they were in 1944. Now, in 1944 they were about 12 or 13 percent less than in 1945. Therefore, we can stand a 12 or 13 percent decrease in sales over 1945 figures, and still equal 1944 figures. Now, on the basis of 1944 figures, it is my opinion that where we are now operating at about 27½ percent—we will operate at not to exceed 29 or 29½ percent. Twenty-nine and one-half percent is the utopian expense rate in the department-store business. I remember that years ago I said if we could get it down to 32 percent, we could make more money than we could carry home in a shoe box if it was in \$10,000 bills.

Looking at the worst side of it, we go back to 1944 business, in my business our expense rate will be 29 to 29½ percent. We are the typical store. I don't happen to be in OPA because I own a typical store. Our expense is 27½ percent, the exact rate of the average in the NRDGA study. If we are a typical store, then other stores like us can foresee the same type of operation for 1946.

Mr. GEORGE. You are supposing that the peacetime rate of expenditures is not going to return at rates of speed that will impair retailers?

Mr. NEY. Not unless retail sales turn downward. Your guess is probably even better than mine as to whether retail sales will turn downward. The relation to national income has a definite bearing. Relation of available goods is an important factor. I personally think that retail sales are going to hold at high levels for some time. That is a personal opinion.

Mr. LYNCH. Mr. Ney, Mr. Seidel, when he testified before this committee several days ago, gave me the very distinct impression that it was his opinion that despite OPA, through downgrading we have had a great inflationary tendency.

Is that your opinion?

Mr. NEY. I should like to talk on that subject. I pointed out to you that I am due at the Senate Small Business Committee, and while they asked me to be there at 11, I was given to understand you will require about an hour of my time. I should like to talk to the very point which Mr. Lynch brings up.

The best measure of the increase in prices that have taken place is shown by the BLS Cost of Living Index—issued by the Department of Labor. That index shows an increase of some 30 or 31 percent since 1939. The index however, is made up of several “segments”—food, rent, clothing and so on. The clothing segment has increased 48 percent in the same period. We have consistently stated that while the BLS index is probably the best available measure of increased prices, that in the apparel and clothing and home furnishings field, it undoubtedly does not give full weight to quality deterioration.

Therefore, we agree with anyone who says that if the BLS statement shows that clothing and apparel has gone up 48 percent on the average, it is probably more, because it doesn't fully measure quality deterioration. Now, apparel, and home furnishings, form a very complex group of items on which to exercise price control. The very elements of style which I discussed a few minutes ago, the fact that the style factor typically represents a greater portion of the price than the intrinsic value, indicates what a problem we have.

It is basic that when you have a buyers' market, when there is more goods than there is money, that every manufacturer strives to improve the quality of his garments. He has competition. The only way he can sell his goods in volume and profitably, is by making a good article. Therefore, in times of a buyers' market, and not necessarily 1933, which was a buyers' market deluxe, but in any normal peacetime year where there is somewhat of a balance between supply and demand, manufacturers strive constantly to improve the quality of their product for the price.

Now, let's contrast that kind of a situation with the one we have been operating under since 1942. We have been going through a market where the sellers' market aspect has been continuously increased. As I pointed out a few minutes ago, customers have been willing to take almost anything. If customers are willing to take almost anything stores will be less loathe to buy what looks like poor values. It is all they can get and their customers have indicated that they will take it.

So, in the sellers' market the incentive for a manufacturer to improve the quality of his product disappears and the contrary, the reverse, situation arises. The manufacturer faced with increasing costs, which are inevitable in times like this, tends to immediately switch to the most profitable items he makes.

Mr. SIMPSON. Could I ask a question there?

Mr. WALTER. Yes.

Mr. SIMPSON. You say manufacturing cost is increased. How do you account for the recommended 2½-percent cut in General Motors products; on the new car?

Mr. NEY. General Motors' automobile price, in fact all automobile manufacturers' prices, are determined under the reconversion formula, which takes into account, Mr. Simpson, increases in basic wage rates that have taken place since 1941, and increases in the legal prices of

material. That is a reconversion formula, which is entirely different, but let me state that General Motors factory prices have not been reduced $2\frac{1}{2}$ percent.

Mr. SIMPSON. That was reduced according to the article published in the Washington papers.

Mr. NEY. We anticipate, on the basis of the information that General Motors has furnished to us, that their prices will be on the average at 1942 prices, but the prices at retail will be $2\frac{1}{2}$ percent less, because automobile dealers will have their initial or original margins reduced on the average some $2\frac{1}{2}$ percentage points, which will absorb the expected increase at the manufacturers' level.

General Motors, who accounted in 1941 for 47 percent of all cars manufactured, will probably not be entitled to any increase. Ford, under the same formula, was entitled to a 5.76-percent increase.

Mr. SIMPSON. That will put Ford, Chevrolet, and Plymouth, with a \$50 difference, model for model, that never existed before.

Mr. NEY. Starting with the 1942 prices where there was a differential—and let me point out 1942 prices were considerably higher than 1941 prices—I am under the impression that as of 1942 there was a differential between the makes which you mention.

Mr. SIMPSON. I am in the automobile business, and there never has been a time in my 30 years' experience when we didn't have Ford, Chevrolet, and Plymouth as competitors. There never has been a time when there has been a \$50 difference between Ford, Chevrolet, and Plymouth, model for model.

Mr. NEY. We have always had automobile competitive markets.

Mr. SIMPSON. Prices have been practically the same.

Mr. NEY. Yes.

Mr. SIMPSON. Chevrolet will probably have a price advantage of nearly \$50 per model on the recommended prices published in the Washington papers.

Mr. NEY. Yes; if Ford wants to take their increase and if it puts their car on comparable models \$50 higher than the General Motors car, then Ford will only do it because they feel that their car will sell at \$50 more, I presume.

Mr. SIMPSON. Anybody's car will sell.

Mr. REECE. Of course they will sell. It is a sellers' market.

Mr. NEY. What model do you deal in?

Mr. SIMPSON. Do you think I ought to tell you? I am a Chevrolet dealer.

Mr. NEY. Do you feel that your Ford competitor in your particular city for the next 12 months will be at a particular disadvantage because his car will sell for \$50 more?

Mr. SIMPSON. Not under present prices, but OPA has created an unfair market situation for Ford. I feel sorry for Ford and Plymouth dealers. I am a nice competitor. I don't want to take advantage of them.

Mr. NEY. I would like to ask you as an automobile dealer, if I may—I know I am not here to ask questions—

Mr. WALTER. Yes, indeed; that is all right.

Mr. NEY. As you know, we had quite a discussion with the Automobile Dealers Association.

Mr. SIMPSON. I heard something about it.

Mr. NEY. It was mentioned up here on the Hill, I think. Do you feel—I am not asking about your own business, but automobile dealers generally—do you think with $2\frac{1}{2}$ percent less than the customary margin—let's say normal margin is 24 percent—with a $21\frac{1}{2}$ margin, with the strong demand that exists for new cars, and considering that there probably won't be more than a third enough new cars in 1946 for the demand, although C. E. Wilson of General Motors told me the other day that he thinks the country will produce $4\frac{1}{2}$ million passenger cars in 1946, but that won't match the demand which has been built up for the past 4 years—do you feel that the average car dealer will do better in 1946 than in 1941 if the industry makes $4\frac{1}{2}$ million cars?

Mr. SIMPSON. In the first place, 1942 Ford, Chevrolet, and Plymouth used cars under the warranty prices are \$142 more than the new 1946 price, if this price goes through.

Mr. NEY. That is correct.

Mr. SIMPSON. Now, certainly, as an automobile dealer or as a Member of Congress or grocery merchant, I have never seen a used article sell for more than a new one. On that basis, I have got two or three suits I would like to sell.

Mr. NEY. Didn't they last year, Mr. Simpson? With the few remaining cars, even there your dealers were permitted to add on an escalator each month for several months, which built the prices—weren't their prices—

Mr. SIMPSON. There were carrying charges on new 1942 automobiles that car dealers had.

There never was a time when a second-hand article from an economic standpoint should sell for more than a new one. It doesn't make sense.

Mr. NEY. Unless new cars are rationed, I agree with that. If there—

Mr. SIMPSON. Should they still be rationed if there is a reason?

Mr. NEY. We have some doubts on that.

Mr. SIMPSON. I am not particularly in favor of rationing anything.

Mr. NEY. Of course not. But my question, Mr. Simpson, it is entirely possible that the used-car ceilings should be revised.

Mr. SIMPSON. If we gave \$500 for a used car in 1939 or 1940, and then due to volume, you sold that used car for \$100, which brought the average profit down to about $11\frac{1}{2}$ percent net, do you feel that because of that same situation that you should continue to do that?

In other words, it was bad business, and now that the war is over, we should do it again because you have about the same amount of profit? I don't feel that way.

Mr. NEY. My question was simply, automobile dealers on the average, in normal peacetime years, did make some kind of a profit. It wasn't very large according to the figures I have seen, but my question was, Don't you think that in 1946, taking all the factors into consideration, the profits of practically every dealer in the country will be considerably more?

Mr. SIMPSON. Just like your own business.

Mr. NEY. It is a sellers' market.

Mr. REECE. I am not an automobile dealer, unfortunately, but in following up Mr. Ney's discussion with you, the observations that I

have made in my conversations and in my relationships with the dealers, and of course we all have very extensive contact with the dealers because there are a great many of them and they are in the main men of fine type—now the apprehension of the dealers down home is that under this new set-up the volume is going to be small. Their overhead goes on. They have to retain their salesmen since they can't let their salesmen go, and in anticipation of the coming on to the market of new cars, there is going to be a slowing up of the handling of second-hand cars and likewise in the repair business, due to two things: First, the shortage of repair parts, and second, the lack of disposition of spending extensive sums on old cars in anticipation of the new ones.

That is resulting in more apprehension on the part of the dealers according to my observation than has existed at any time since the period when the controls were first imposed, and they did not know what the future held for them. But I don't think there is a dealer in my area who is anticipating doing as well this year in 1946 as he did in 1941, and for that matter, he is approaching 1946 with greater apprehension than he approached 1943, 1944, or 1945.

Mr. NEY. Mr. Simpson is an automobile dealer, and being also a Congressman, has a much broader view. I understand his idea is that being a sellers' market, if a reasonable number of cars are produced, $4\frac{1}{2}$ million cars, which is a good production estimate for 1946, I understand Mr. Simpson to say that it being a sellers' market he felt the average car dealer would do better than he did in the past.

Mr. SIMPSON. He will certainly do as well if he gets the cars. But why cut the price of an automobile $2\frac{1}{2}$ percent and still have the dealer absorb it?

Mr. NEY. The $2\frac{1}{2}$ percentage points which the automobile dealers are required to absorb is merely a continuation of the very same cost-absorption policy which we outlined before.

Mr. SIMPSON. But the recommended prices in the Washington papers, one line of automobiles are having a reduction in prices of $2\frac{1}{2}$ percent and still I suppose that dealers will have to absorb that.

Mr. NEY. I would like to discuss that. We were faced with one of two choices, neither of which was very good. We very seldom have good choices to choose from. We had the situation in automobiles and in refrigerators and some other major appliance items where the amount of increase the individual manufacturer would get would vary.

It would vary for several reasons. One reason it would vary would be because some dealers advanced their prices a great deal more between 1941 and 1942 than other dealers did.

Mr. SIMPSON. The dealers or manufacturers?

Mr. NEY. I mean that manufacturers advanced their prices more than their competitors did. For example, in the refrigerator business—I happen to have a major appliance store—practically the only major appliance manufacturer who didn't increase his prices between 1941 and 1942 was General Motors, the Frigidaire.

Now, in order to put them on a par with Westinghouse and General Electric, and Norge, and all the rest, they were entitled to an increase, and the other manufacturers were not entitled to an increase. The amount of increase to Frigidaire Division of General Motors was something like 12 percent. If you give them 12 percent increase, it

was really an increase over 1941 price, and brought them up as though they had advanced their prices as the rest of them did.

Mr. SIMPSON. Don't you think competition will take care of that?

Mr. NEY. When we gave this 12-percent increase to General Motors, we were faced with the situation where if we required Frigidaire appliance distributors—I don't happen to carry Frigidaire—to absorb that increase, Frigidaire dealers would have been penalized over all other dealers by taking an extremely large reduction in mark-up, whereas I, as a Westinghouse distributor, would have had no absorption.

We thought that the better alternative to that was to level the increase throughout the industry. In addition to Frigidaire, General Electric got it on just two models, Frigidaire on the whole line, and then all appliance dealers took a reduction of 1 percentage point.

The Frigidaire dealer in my town would have been in a bad position if we had required him to absorb that Frigidaire increase, and I get by, a Westinghouse dealer, scot free in a sellers' market, where I am going to make a lot more money than I did in 1941.

We did the same thing in the automobile business. Perhaps the committee doesn't like the alternative we selected, but we thought it was a reasonable one to select.

Mr. SIMPSON. I want to ask one more question. What do you think will happen, as an electric-refrigerator dealer, what do you think will happen when the new models come out and the customer drives to the sales room with a used car and the price has been cut to the dealer? He would normally give \$500 for an automobile and what will he do? He will just cut that used car down to \$425 or \$450. So where have you saved anything?

Mr. NEY. I pointed out that I am not an automobile dealer. I am familiar with the trade-in problem in the appliance business. We have a trade-in business. It is a type of business I know something about, I think, and we have already experienced—we have a couple of samples of our Westinghouse refrigerators, just like you probably have some samples of your cars, and we are taking orders.

The minute we put them on our floor, our customers came in and registered. "We want a box just as soon as we can get it." Where they used to want 3 years to pay for it and no down payment and they had an old \$5 ice box to trade for \$50, and usually got it, now they have nothing to trade in. Now they want to pay cash or put it on the regular charge account. We ask them, "Do you have a trade-in?" And they will say, "No, you won't have to take any trade-in." It isn't a question of our having to take in. We have a big demand for used refrigerators. We are not going to require you to trade in a box to get a new one, but if you have one, we will be very glad to take it off your hands. We will take it off your hands and give you a fair price.

We will sell it after reconditioning it, at a profit. We are in the peculiar situation of looking for trade ins.

Mr. SIMPSON. If your discount is cut and you gave a man \$25 for a used refrigerator under normal conditions, won't you cut him down to \$15?

Mr. NEY. He would go out and sell it himself first.

Mr. WORLEY. Don't you give preference to a fellow who has a used box to trade in on a new one?

Mr. NEY. No. As a practical matter, we don't. We simply let our customers come in and register in order, and we make them sign the register themselves and they see their number, 122, and they know they are number 122, and we give them a slip which says, "You are number 122," and we don't care whether they want to pay cash or charge it, whether they have been a good customer or not. We want to build up some good, postwar consumer relations.

If they want to trade in a box we will give them a fair price.

Mr. WALTER. I think the committee would be interested in knowing how you arrive at the price you have allowed new manufacturers in lines in competition with existing lines.

Mr. NEY. You are talking now not about reconversion commodities, but apparel and the house furnishing items and the toys and miscellaneous housewares, et cetera, particularly those items that Mr. Seidel has talked on and shown in the NRDGA exhibit around town.

Mr. LYNCH. The low-priced articles.

Mr. WALTER. Yes.

Mr. NEY. Well, I should like very much to spend a few minutes on that. The constant statement has been made by the proponents of this exhibit of the National Retail Dry Goods Association, that we have discriminated in favor of the new manufacturer. I have been a life-long member of the association and very active before I came into the Government, and expect to be very active when I get out.

I think trade associations have a very definite function and I am for them. I think their functions have been a little abused during the war. After all, the executives are paid people and have to justify their jobs.

Mr. WORLEY. Are there any "little" members in that association?

Mr. NEY. Yes; I think they have about 6,000 members. It includes some small stores.

Mr. REECE. Since we were discussing this automobile dealers' situation a while ago, I am myself, not quite satisfied with the record as it now appears to be left.

I understand from the conclusions that you drew from this over-all discussion that the dealers in 1946 are facing the year with greater profit prospects than they enjoyed in 1941.

Mr. NEY. Yes.

Mr. REECE. And that you used what Mr. Simpson said to support that view, and I didn't get that conclusion from what he said, myself.

I would like to have that clarified, if it doesn't take too long. It is in this question of dealer percentage profit. The dealers are in the same position that other buyers are in.

As you said, this is a sellers' market—and from the standpoint of automobile manufacturers it is a sellers' market. The dealer is not in a position to force a favorable trade, a favorable concession from the manufacturers. They are in a position to say, "If you don't want the dealership, I have another man here who will take it in anticipation of the future."

He might be in position to withstand a loss for a period of time.

My observation of dealers and my relationships with the dealers at home are that they are not facing 1946 with as favorable a prospect as they faced 1941, or enjoyed in 1941, and that is really what I want to know.

Mr. NEY. If I misquoted Mr. Simpson, I am sorry. Did I misquote you?

I understood him to say that in view of being a sellers' market—I would be glad to express my own opinion—

Mr. WALTER. Yes, please.

Mr. SIMPSON. If a dealer sold 100 automobiles in 1941 and his gross profit was \$200 a car, he would have \$20,000 gross profit. Is that right?

Mr. NEY. Yes, sir.

Mr. SIMPSON. He didn't do that because he had the old trade-in bug, and the NADA figures show that he averaged about 11½ percent gross in place of 24 percent.

Now, call it just about half of that, or \$10,000, which would be his profit for 1941. Now, if he sells the same number of cars in 1946 and has his full gross profit, why naturally he is going to show more profit for 1946.

But going back to 1943, 1944, and 1945, when he didn't have any cars and his average is still poor—I don't think that because an automobile dealer might have a good year in 1946 that his average will be anywhere near that for the period of time there have been no automobiles to sell. He shouldn't be penalized because he might have a good year in 1946 any more than a farmer should be penalized if he has a good crop year and his crops sell for less.

Mr. NEY. In 1943 and 1944 when he had practically no cars, only what he had on hand, he made more money than he made in 1941 when he did have cars?

Mr. SIMPSON. I said that if he didn't make anything on new automobiles—this average dealer in 1943, 1944, and 1945, because he didn't have any cars—he had to pay more attention to his shop and his parts and things of that kind to keep his door open.

I am saying that even if you make a full gross profit of 24 percent on 100 automobiles in 1946, considering that department of your business of new-car sales, your average would still be poor.

Mr. WALTER. May I ask a question? What bearing would the increase in the repair business have on his gross profit?

Mr. SIMPSON. When the average retail automobile dealer had plenty of cars, he didn't particularly care as long as he broke even in his shop. He had his profit from new-car sales.

Mr. WALTER. But then he revamped his business?

Mr. SIMPSON. He had to.

Mr. WALTER. Would his profit out of repair work be sufficient so that the average would be about the same?

Mr. SIMPSON. No, sir; they had to revamp their parts and service departments in order to break even on their business. They had to do it.

Mr. NEY. Your example, which I think is a very good one and an accurate one, indicates that 1946 will be an excellent year, but that the dealer is entitled to an excellent year because he has had three poor years. I don't challenge that statement. I think he will have an excellent year and I think it is good that he will. He will have to spend a lot of money.

Mr. SIMPSON. About twice in the last decade an automobile dealer has had a chance to make a little more than his average profit. In

other words, get himself in a good cash position. Once was during the other war, and now it should be in the offing in this war. In other words, nobody that I have talked to feels that because of the fact that there is an unprecedented demand for automobiles for the simple reason that they have gone off the market—it is a replacement market—that they should be penalized and put back to averages.

Mr. REECE. But, Sid, supposing another difficulty. I am glad to see all this optimism about the number of cars you are going to get in 1946—that is not universal optimism—but suppose the difficulties in steel and in the automobile manufacturing business and otherwise along the line should continue during a good part of 1946 so as to restrict the output of automobiles, then what position are the dealers going to be in?

Mr. SIMPSON. The same position as he was during the war.

Mr. NEY. Well, in 1942, 1943, in 1944, also, and practically 1945, there were no cars manufactured. We know that some cars are going to be manufactured in 1946 and Mr. Wilson, whom I think is one of the soundest men in the automobile business, says that he thinks that there are going to be $4\frac{1}{2}$ million passenger cars produced in 1946, and he says it publicly, so I can quote him; $4\frac{1}{2}$ million cars, he says, will be about 10 percent more than manufactured in 1941, talking about passenger cars only.

I said, "Will General Motors maintain a 10-percent increase, too?" He said, "No. The industry will maintain a 10-percent increase but not General Motors, because in 1941 we were working at capacity and made 47 percent of the cars that were made in this country. We have the same facilities now and we can't make any more cars until we get more plant facilities. We are not going to have them until the last quarter." Therefore, I think that General Motors is going to produce about the same number of cars they produced in 1941, which would be less than 47 percent of the total, if the industry produces 10 percent more than they did in 1941.

He said, "You have got some smaller dealers—let's take Hudson for instance—who produced maybe 80,000 cars in 1941." I happened to talk to their president the other day. His goal is 100,000 cars. Another small one, Nash and Willys-Overland, produced relatively few cars. They expect to double what they produced in 1941.

Mr. REECE. Aside from the labor question, do the large companies like General Motors have the facilities installed to resume their normal production by the first of the year?

Mr. NEY. I can again only quote Mr. Wilson and Mr. Barrett, the head of Hudson Motors, the only two I have talked to personally.

They expected the rate of production by the first of the year would be up to about 250,000 cars a month, an annual rate of 3,000,000. They expect that monthly rate to increase so that in the last quarter the industry would be producing at the rate of 500,000 cars a month, an annual rate of 6,000,000.

Those fellows are pretty smart manufacturers. I assume that when they gave the War Production Board last October, the rate of production that they expected to meet in 1946 by quarters that they were cagey enough to take into consideration all the factors, availability of material and labor. I don't want to make the dogmatic statement that if

the labor situation were settled today, that they would meet that schedule. That should come from them.

My conferences with them have been extremely encouraging. If labor can get settled, we will start grinding out cars in this country. Not enough to meet the demand. When we get up to a 500,000 monthly rate, it will be something the country has never seen. We are going to have a strong sellers' market. Dealers will keep making money. I am going to try to keep making money, too.

I think that the car dealer will too—say a period for the next 2, 3, or 4 years—far in excess of what he ever made before. And if it serves to compensate him for the lean years, I will be glad to see it.

Mr. LYNCH. The time of the witness is pretty nearly up. I would like to have the question answered that was propounded before.

Mr. NEY. If we can talk to Congressmen who have been automobile dealers, we will be glad to do it, because other Congressmen will ask them their opinions.

Mr. SIMPSON. If you will ask somebody in Mr. Bowles' office for an answer to my letter which I wrote asking for an explanation of the new prices, I will appreciate it. That was written after reading about them in the papers.

Mr. NEY. That was about 4 weeks ago.

Mr. SIMPSON. I have never had an answer to that letter.

Mr. NEY. Let me say in conclusion that the Price Department gets over 100,000 letters a month and we try to answer them. It is no secret that every piece of congressional mail comes down with a great big sticker and that congressional mail gets answered. If it takes us 4 weeks to answer Mr. Simpson's letter, God help the public.

Mr. GIFFORD. I have a letter here. It says here about your agency, that it is not doing a job, that your unrealistic, theoretical, and inequitable approaches to pricing problems are not merely restricting, but literally throttling industrial activities throughout the Nation.

That is by the special committee. They indict you very much. Now, are we trying to offset that? Are you trying to, or what?

Mr. NEY. I am just a guest of the committee. I will be glad to answer any indictment or if you wish, give you grounds for another indictment.

Mr. GIFFORD. You are a what?

Mr. NEY. I am a guest, or if you prefer, a bureaucrat that has been requested to come here.

Mr. GIFFORD. If you are a guest, I want to treat you as a guest.

Mr. WALTER. We have wandered far afield. Let's get around to this question.

Mr. NEY. The question of giving prices to new manufacturers is one of the most complex things that we ever had to meet. Let me state unequivocally that we have never had any desire to give new manufacturers prices which would be discriminatory to the old manufacturers. We have never had any desire to give old manufacturers prices on their new products which would provide an added incentive to produce the new ones.

Let's see the mechanics that have been set up. Let me say that had the act provided or had we been given sufficient authority to prohibit any new manufacturers from coming into this field, our problem would have been simplified very greatly. Had the authority

been provided for us to prohibit manufacturing of new items—but we don't have that authority. I am neither talking for nor against it, I am just stating the facts—our problem would have been simpler.

In the absence of that, new manufacturers have been able to come into the field in a short market where everything will sell, and old manufacturers have been permitted to go into new items, and we have spent years trying to get the pricing of the new items down to the best system we could. Here is how we do it.

Let's assume that this new manufacturer wants to make a table just like this one. Or he wants to make a small table like this one over here. He has located somewhere, and has access to lumber, and he has access to labor, and he wants to become a furniture manufacturer and he has never been a furniture manufacturer and perhaps never a manufacturer at all.

He makes up a sample of the item he wants to make, say that table over there, and he sends it in to us and he says, "I want to make this table and I would like to have a price of about \$40 on it. Give me a price."

Now, our technique is to price that manufacturer in line with the prices that the existing manufacturer had when price control started, but the objective is not too easy to accomplish because that table, pre-price control, could have ranged in manufacturers' price from \$15 to \$25.

Now, the manufacturer who got \$15 for the table in all probability was a large, low-cost, very efficient manufacturer. Perhaps he made them in large quantities and sold them in carload lots to large buyers.

Because of his method of operation, he probably had no selling expense. He had no advertising, perhaps. He was a volume producer and he was satisfied to operate, pre-price control, on a large volume and small margin. So his price was \$15.

Here is another manufacturer who makes the same table out of the same wood, with the same finish, and to all practical purposes it is the same table. This manufacturer has a different type of distribution. He doesn't sell in carload lots. He sells 24 to 48 or 50 at a time. He sends salesmen around the country. He wants Nation-wide distribution. He does do advertising. He has a smaller volume and he wants a larger unit profit. The price he has been getting, let's assume, instead of \$15, is \$20.

Now, let's move up to a very small manufacturer, a local manufacturer. This small manufacturer sells two and three at a time to small stores of all kinds. He pays more, historically, for his lumber. He has less efficient labor, he is a less efficient manager, his manufacturing cost is higher, his volume is small, and he gets \$25.

I would be glad to submit to the committee hundreds of examples like that.

Now, in comes a new manufacturer who wants a price on the same thing. We want to price him in line. Question—with whom shall we price him in line? Shall we price him in line with the very large fellow over here making tables for \$15? It wouldn't even cover the cost of this new little fellow. Shall we price him here in the middle? If we do, it will probably cover his costs, but it won't give him any profit, and the screams his Congressman will hear will be loud and frequent.

If we price him up here, we are probably pricing him in line with the same type of operator that he is, but if we put him here, the low fellow says, "You are discriminatory."

We try to exercise our judgment. We keep a complete file on every price application we ever had. Thousands and thousands of items that have been sent to us for pricing. We spend hours looking for the comparable item, selecting it point by point, material, specifications, finish, methods of manufacturing, and then we try to price him in line with the type of producer which he is, and when we do, Mr. Seidel comes down and shows a scooter here and another scooter here and says, "You are discriminatory against this manufacturer."

We have got human beings down there who spend hours day and night pricing this merchandise. They are probably the most expert people in that field. They have priced more items than anyone else in this country. We do make mistakes, but most of them have not been mistakes, and we have exhibits from the NRDGA, exhibits which proved definitely that the prices we give are in the main, completely justifiable.

Mr. LYNCH. Did you check those irons?

Mr. NEY. We are getting a complete report on the whole thing, which we will be glad to submit to you. Not only the case they quote but the whole case on electric irons, which is an item which millions of housewives need and should be able to buy. We have had applications from dozens of new manufacturers, and we have priced them.

Mr. WALTER. It was Mr. Seidel's contention that permitting the new manufacturer to get a higher price on an inferior iron prevented the old manufacturer from getting sufficient materials for his product.

Mr. NEY. I can't disagree that if the \$15 manufacturer could get all the material he could use that the people of the country would have more tables for a lower price. However, we have got to take bona fide applications and process them and price them in line in our judgment with their competitors, and by that you just can't price a new automobile manufacturer in line with General Motors, because he can't make them for the same price. We haven't had but about one application on new automobiles.

I am talking about the hundreds of small items that come to us. Now, the other charge is the fact that we are driving these old established manufacturers out of business.

Mr. WALTER. You are driving them out of the market is the contention. Then there is something else, that they are resorting to a subterfuge of changing a type of article in order to get a new price, a better price.

Mr. NEY. That has been done in many cases. There is no question about it, and had we had no price control, we would have had the same thing, only worse.

In the apparel field we have a different effect in addition to the one I have described—on the items of apparel and clothing that are covered by the general maximum price regulation and we have attempted to get as many of them into specific price regulations as we can. Next week one is coming out on shirts, shorts, and pajamas.

Mr. WOLVERTON. Now that the witness is in the apparel field, could we have him make his explanation on the basis of the case that we

had before us the other day, which was the exhibit over in the Senate Office Building of a woman's waist that the established manufacturer was given a price of \$1.87½ and the new manufacturer \$6 for a comparable waist?

Mr. NEX. I would be glad to. It so happens that we have not been able to secure the name of the blouse manufacturer from N. R. D. G. A.—but I can tell you how they were supposed to price. I can't tell you the facts because they have refused to give us the names—the day the exhibit was shown down here, we wired Mr. Hahn, general manager of the association, and Mr. Bowles requested, that as soon as the exhibit had served its purpose in the House and in the Senate, and that every one in the Congress that wanted to see it had had a chance to examine it thoroughly, that it be sent down to our office with a list of manufacturers.

Mr. Bowles stated that we price scores of thousands of items, that we have undoubtedly made some mistakes, but we don't believe that the mistakes are so glaring as the exhibit would have us believe. We would go into it very thoroughly and check every item in the exhibit and make available to the Congress and to the public generally a complete report on every item, admitting where we were wrong fairly and squarely.

Mr. Hahn relied that the association and the people who cooperated in compiling the exhibit had promised the manufacturers that they would not divulge their names. We felt that the old manufacturers who have been forced to drop production because of our inequitable pricing should not hesitate to furnish their names. The answer was, "we have agreed not to furnish any names." And then we said, "on the new manufacturers, these horror stories that you are showing here, you say they are legal prices. On the basis of one or two that we have been able to find the names of, we say in the main they are not. Retailers generally ought to be interested in furnishing us the names. If they are legal prices, the association has nothing to fear, and if they are illegal prices, we expect the cooperation of industry." Again Mr. Hahn refuted.

Mr. Seiel appeared at the Senate Small Business Committee and made some charges. I brought to the attention of the chairman that we had not been able to secure the names. Senator Murray stated that if the association did not see fit to furnish the names, he didn't see how OPA could check it, and if OPA wasn't given a chance to check it, the evidence wasn't conclusive.

Mr. Seiel said they couldn't do it. We again wired Mr. Hahn, calling attention to the fact that the Chairman of the Senate Small Business Committee had requested them. Mr. Hahn said that he would furnish it to a congressional committee. The Senate Small Business Committee had wired for the names of the manufacturers. We are waiting for them. In the meantime, they have furnished us with the names of one or two of them. I have some; not the blouse one.

They showed in this exhibit that this old-line manufacturer of a scooter—you know what a scooter is, a toy scooter for boys and girls—had been forced to discontinue production, had applied to OPA for price relief on several occasions and had been turned down cold and had been forced to drop the production.

We were furnished the name by the committee yesterday at 5 p. m. We called the manufacturer in Chicago. The manufacturer of this scooter said on the first conversation that—

Our company is in full production on this line of scooters. We are producing them at 1942 prices, and we are not using the 14-percent price adjustment for toys which we were allowed about 30 days ago, although we may have to use a portion of it in January.

It was just so inconsistent with the exhibit that I asked our man to call again. I knew I was coming up here today. I said, "Maybe it isn't the same company." So our man said, "Do you know of any other toy manufacturing plant under the name of Hamilton Steel Co.?" "There is a plant in Cleveland, Ohio, but they are not toy manufacturers." (This name was furnished us by the committee.)

"Is there a Hamilton Steel Co. in Indiana that you know of?" Because the committee says Hamilton Steel Co. of Indiana. His answer was, "If there is, I don't know anything about it." "Do you know whether or not the scooter on display in the NRDGA exhibit is your scooter?" "I know nothing about the display at all." "How many scooters have you produced this year?" "By the end of this year we will have produced 250,000 scooters." "Have you at any time applied to us for a price increase?" "No, we are producing at 1942 levels, but I am sure that we will have to use some of the 14-percent adjustment after the first of the year."

Now, let me give you another example. They showed a pair of men's shorts, which is closer to the hearts of all of us than women's blouses, men's undershorts. I am not sure that is a good analogy. I would like to say that we would probably rather have a pair of them.

Mr. WALTER. That was not literal.

Mr. NEY. I think I was completely wrong there. Here was the story, and in this elaborate booklet, which they published and circulated around the country entitled "The Consumer Suffers."

Mr. WORLEY. Who published that?

Mr. NEY. NRDGA. They have an actual example here of men's shorts. For example, men's wear, they say the OPA expects the established manufacturer to market fine printed sanforded cloth shorts at \$3.55 a dozen. We expect him to do it.

In the testimony Mr. Seidel said this manufacturer, a very fine manufacturer, an old line manufacturer, has applied to OPA for relief on several occasions, and been turned down cold. Had to stop making them, went out of business. Well, I was sitting over there in a semi-comatose state—I had been listening for several hours. I said "Isn't there a ticket on that pair of shorts?" He said, "Yes." I said, "What does it say?" "It says, 'Fruit of the Loom.'"

I happen to know something about this case. I said, "Every statement you have made is absolutely incorrect in the case of these shorts."

I would be glad to furnish the complete record to the committee before which we were testifying. The facts are that the exclusive license for the manufacture of men's shorts with Fruit of the Loom cloth is in the hands of a company known as the Union Underwear Co., of Frankfort, Ky., with headquarters in New York City. This company is the largest manufacturer of men's shorts in America. They make only popular priced shorts, retailing today from 39 cents to 55 cents, with a few at 69 cents. They have been in business for 20

years. They make the same shorts today at the same price they made them in 1942.

Mr. WOLVERTON. Do they make the same number?

Mr. NEY. They make more today than in 1942, and the president of the company testified before the Senate Small Business Committee the other day, and they are making a total of men's shorts and undershirts of a half million pair a week. In those three price ranges, of which some half million pair a month, that would be about one-fourth of them, are at 39 cents.

Mr. Hahn heard of my questions to Mr. Seidel and in a letter to Mr. Bowles he said, "Maybe that is true, but I would like to know who gets them." So, the committee chairman asked, "Who do you sell those to?" "I sell them to 10,000 stores in 48 States." "Are they the same customers you sold in 1942?" "We sell every customer in 1942 who asked for them, and that is every customer now in business." "What types of stores do you sell, just large stores?" "We sell from Sears Roebuck and J. C. Penney down to the small country stores." "Is your business profitable?" He said, "Very profitable." "Is it profitable today?" "I am well satisfied with my profit. Without OPA regulations, I could make a great deal more. My 39 cent shorts could sell for 69 cents. If I could make 3 million pairs instead of a half million pairs, I could sell them just as easily. I am a medium to low-priced manufacturer, and that is where I want to be, and when this sellers' market is over, my shorts are going to be right where they are today."

You hear that kind of stuff and it just shows—I don't select the samples, it is just the ones we have gotten the names on. When the names are furnished to us, we are going to give you a complete report on each and every item.

Mr. WALKER. Yes.

Mr. NEY. One more example. By the way, some of these samples they are sowing are getting pretty shopworn. They hired pretty girls, and they put on quite a show demonstrating them.

Mr. WALKER. We missed that.

Mr. NEY. He showed a sample of toy blocks, like our kids used to play with, mine still do, and he said, "Here is a fine old manufacturer in Albany, N. Y., I believe, who makes a swell block." And I can tell you gentlemen it is a swell block, and he says, "This manufacturer has had to stop making them, has applied to OPA for price relief, and been turned down, and he is not going to apply to OPA for price relief either because he doesn't want to have anything to do with them." Here are the facts.

We killed this old established manufacturer. He said, "We have not manufactured these blocks since 1942 because of the shortage of ponderosa pine, which we use in the manufacture of these blocks. We haven't been able to get ponderosa pine, and you know what the situation is there. We expect to obtain some pine and we will resume production. If it is necessary for us to come and see you about an adjustment at the time, we will do so."

We said, "What are you making now?" They said, "We are making checkers and dominoes." We said, "At what prices?" They said, "1942 prices." "Same items?" "Of course. We only make one quality." "How are you doing?" "We are doing all right."

That is that item.

Then they showed another item the other day, not women's blouses, women's rayon panties, and the price on the panties. This little merchant from Richmond, Va., a good friend of mine, this Mr. McCargo, said, "Here is a pair of panties which I got and had to pay \$10 a dozen." I was asked whether they were worth \$10 a dozen. I was sitting at the end of the table. I said, "I don't have to come up there to answer that. They are not worth \$10 a dozen. He said, "I would like to have you examine them." Then I said, "They are a piece of trash." He said, "How do you give prices of \$10 for a piece of trash like that?"

I said, "We don't give a price like that. I never saw them before. We couldn't under any condition give a price of \$10 a dozen on that pair of panties."

Well, he says, "Mr. McCargo, did you buy these panties?" He says, "Yes, sir." "You personally?" "Yes, sir."

"How long have you been in business?" "Thirty-four years." "Do you know values?" "Yes, sir." "What do you think they are worth?" He said, "About \$4.50 per dozen." He said, "Is that right, Mr. Ney?" I said, "That is about right." "Well, how does this manufacturer get a price of \$10?" I said, "Now, wait a minute. He hasn't said he bought from a manufacturer." "Where did you buy them?" He said, "From the Giant, Ltd." "Where are they located on lower Broadway about the 400 block of Broadway?" He said, "Yes. 464." "Are they jobbers?" He said, "Yes." "How long have they been in business?" "This is the first time I ever bought from them." "Have you ever heard of these people?" "I think they're new jobbers." "Did you ask them whether that was their ceiling price?" "No." "Well, how can you afford anything that is so obviously over-priced?" "We have got to have these panties, and besides I am sure OPA gave that price."

We will have it checked within 48 hours if we can locate the guy. Here is probably what happened. The chances are he is a new jobber. I think that is right. The chances are he is a very small jobber. The chances are that he is buying the goods from another jobber and not from a manufacturer. So we have got at least two wholesale profits in there, and I don't think either of them are legal margins, and there is no way, even under our general maximum price regulations, which God knows are loose enough, that he could price them even semi-legally at anything like \$10 a dozen.

The preliminary report is as follows: They refused to allow our investigator to see records, and it seems that they have no pricing records at all. They started business late in 1943. We intend to take appropriate action to compel them to bring their records into court.

I think we can demonstrate beyond a doubt that he couldn't even with a lead pencil, justify a price of \$10.

Mr. WALTER. This man in Richmond was buying black market

Mr. NEY. Let's say he was doing it innocently. When the facts are brought out, some of these horror stories just don't hold water. I can't answer about the blouses. We will be glad to get that one too, and all we need is the name of the manufacturer.

Mr. WORLEY. Do you suppose the action initiated today by the Attorney General's office will be of any help to you?

Mr. NEY. That was a very gratifying thing in the paper this morning. Mr. Tom Clark announced today that there is going to be a concerted drive on black marketeers in the clothing and textile industry. It is long overdue.

Mr. WORLEY. Mr. Seidel made a point the other day to the effect that the inventory of his company has decreased. I believe their inventory is about a third now of what it was in 1941 and 1942. What causes that? Is that generally true?

Mr. NEY. I don't think Federal Reserve figures on any industries of retail and wholesale outlets will show that inventories are down anything like 66 $\frac{2}{3}$ percent. They have started to decline. The answer is simply that we are all selling more goods than we are able to buy and if you keep on, you sell out of inventory.

Mr. WORLEY. You don't have any corresponding increase in production. Of course, his point is that the price you allow a Mississippi manufacturer, which was his illustration, discourages or prevents production. Apparently you don't agree with that.

Mr. NEY. I certainly want to see the case. I think there are several factors that cause either a loss in existing production or prevent existing production from expanding. I think that one of those factors is lack of material, and incidentally, that isn't an unusual factor, particularly in cotton goods.

And they have been faced with this situation, where during the war the Army took a large proportion of all cotton woven goods, which ordinarily go into shorts, pajamas, et cetera.

During that time civilians got less cotton than in many years, coupled with the desire for much more than they ever had before.

So materials, metals, or fabrics, have been short in relation to civilian demand, even though total production exceeded all prewar years, total cotton woven goods production, and Mr. Maynard can verify this, I think total production of woven cotton goods in 1943 went up to something like 11 billion yards.

Mr. GEORGE. A little over.

Mr. NEY. In 1945, my latest report indicates there will be a little below 9 billion yards.

Mr. GEORGE. A little below that yet.

Mr. NEY. Now, materials have caused loss of production.

Now then, there is another thing, labor. We know, for example, that the chief contributory cause to the loss of production in the cotton textile mills is the loss of labor. You follow their production line and compare it with the labor employment, and it is parallel. Cotton mills generally have been on a pretty low wage scale. There have been a lot of high wages paid around this country—and they lost them to defense plants and the armed forces. They have brought in less efficient labor.

Mr. SIMPSON. Does the fact that the English textile mills have closed down make any difference?

Mr. NEY. Did they close?

Mr. SIMPSON. Yes.

Mr. NEY. I am not familiar with the fact that they are closed down.

Mr. GEORGE. I can't answer that.

Mr. WORLEY. They have been producing textile machinery.

Mr. SIMPSON. I was under the impression that maybe it was cotton workers in England in the mills, that they closed them down during the war.

Mr. NEY. I don't know the answer to that one.

Mr. WALTER. They produced all of their own uniforms.

Mr. SIMPSON. I am mistaken then.

Mr. NEY. Materials have been short, labor has been short. We have a situation where as labor comes back, production improves.

Now, we have got a third reason for prevention of expansion of production: the inability to obtain parts. Take this medicine cabinet which the NRDGA showed purely as a price problem. We wrote to the manufacturer. The manufacturer said, "No; we have no price problem as yet. We are not manufacturing large quantities because we haven't been able to obtain the necessary parts. When we get them, we will get back into full production; and, if we have a price problem, we will get in touch with you."

The one I put last shouldn't perhaps be last, and that is price. Surely there are cases without a question where if our standards had permitted us to say to a group of manufacturers, "Look, let's make a trade with you. How much will you take to start making this item?" I think maybe we could make a deal on that. But we don't have that kind of standards. We were instructed by the Congress to hold prices and to give price increases under certain standards which we have developed and submitted exhaustively to congressional committees.

Many efforts have been made to put on a cost-plus. It is all right in some forms, but in others we think it would be the contributing cause to the loss of control of price. We can't say to a group of manufacturers, "We need that item. Let's make a deal. Your present price is \$9 a dozen. What will you take?" "Well, we will take \$18 a dozen." "Well, \$18 is too much. How about \$16?"

This is Government and we are a price-control agency; and while it is a good practical approach, and I tend to be a practicalist rather than a theorist, I can assure you that I just know you can't operate price control in that way.

So we had to operate under standards, and I don't deny for a moment that there have been times in some fields, in some price lines, where the production of this particular item has either been dropped or diminished because of the fact that the manufacturer of those items had the opportunity to make something else which was more profitable.

I want the record to show very clearly that that has happened. If we had no price control, it would have happened, too.

Mr. GEORGE. Are there many instances that came to your knowledge where the manufacturer had to take a loss in items important to the public?

Mr. NEY. During the war there was a policy evolved by Fred Vinson, who was then Economic Stabilization Administrator, now Secretary of the Treasury, which was worked out with the various agencies and known as the Vinson formula.

Now, the procedure was that when, in the judgment of the supply agency, the production of an item was essential to the war effort or civilian economy, the supply agency—in those days the WPB—should direct the manufacturer to produce not less than a stated quantity of those items; and if, in complying with that directive, the manu-

facturer was forced to produce that item at a loss, the OPA should then entertain an application for price relief from that manufacturer.

The price relief was given in order to give those manufacturers total cost on the item which they were directed to produce unless the profits of the individual company were less than twice as much as they were in the period 1936-39, in which case we were instructed to give cost plus 2 percent. That was during the war, and the directive was used by WPB—Mr. Maynard knows it very well—with varying degrees of success.

It is true that manufacturers are extremely reluctant to produce an item at total cost or cost plus 2, if he can produce something else without a directive at cost plus 20.

Mr. WORLEY. What is the answer to that?

Mr. NEY. That is human nature.

Mr. GEORGE. What is the solution?

Mr. REECE. There is one commodity that came to my attention, and that is hardwood flooring. The Appalachian area is quite a hardwood flooring area, and this ties in closely to this housing problem that I thought the committee should give it some attention. I was wondering if you expected to bring Mr. Peterson or anyone from the Hardwood Division, from the Lumber Division, before the committee to testify.

Mr. NEY. Which has to do with the price increase on hardwood flooring?

Mr. REECE. Yes.

Mr. NEY. I have spent some time on lumber figures. I can't answer on hardwood flooring. If you want a particular question—

Mr. REECE. It is only this: The hardwood flooring people in my area in the main are closed down, and they say it is due to the fact that they now sustain a loss on each carload of lumber shipped, a loss running up to \$200 a carload, and they just can't continue to operate.

These manufacturers produce only a high-grade hardwood flooring. Therefore they have to have first-grade lumber. There are some floor-types of manufacturers who possibly produce some hardwood flooring, but they produce other goods also, and a great many of the lumber dealers will grade their lumber 1, 2, and 3, and sell it all to the manufacturer.

Mr. NEY. Yes.

Mr. REECE. Now, these high-grade hardwood flooring manufacturers are not in a position to buy lumber on that basis. They have too great a loss. They have nothing they can use the grade 2 or 3 lumber for.

Some of them I know are closed down only because—a gentleman who is in the business, who served with great distinction in the Navy in the Pacific, receiving numerous awards and was a volunteer, talked with me about the problem, and he said that he lost about \$200 on each carload of lumber that he shipped.

Mr. NEY. Actually lost \$200?

Mr. REECE. Yes, sir.

Mr. NEY. If this is an item of general interest, we will be glad to get a complete statement. If it is an item of interest to Mr. Reece, we will have a report for him in the morning.

Mr. REECE. It is very difficult for construction people in that area to get hardwood flooring, although we are in the center of the industry.

Johnson City, where I live, is a very large hardwood-flooring producing center.

Mr. NEX. I regret that I can't answer the question. I will be glad to have the information for you tomorrow morning.

Mr. REECE. I was merely raising the question because of its general interest.

Mr. WORLEY. A moment ago when I asked you what the answer was, you said, "Human nature." I meant to ask, what is the solution?

Mr. NEX. To manufacturers concentrating on more profitable lines?

Mr. WORLEY. Yes.

Mr. NEX. I suppose that there are various schools of thought on that. One school of thought says—and that is the school of thought of the National Retail Dry Goods Association—

Mr. WORLEY. You disagree with that?

Mr. NEX. Yes; as a Government official, and as a private citizen. I don't question the right to present their views. This group seems to feel that the solution to the problem, the panacea for all these ills, is simply to permit manufacturers to take current costs plus a fair margin of profit.

Mr. REECE. If you will permit an interjection—this hardwood-flooring manufacturer in talking to me and telling me his difficulties, said this, "It would not do in industry to remove all controls." I mean in that particular industry, he recognized that, but it is only a question of getting a regulation that would permit them to give the people the production which was needed.

Mr. NEX. May I speak off the record?

Mr. WALTER. Yes.

(Discussion, off the record.)

Mr. WALTER. The committee is adjourned.

(Whereupon, at 12 o'clock the committee adjourned.)

POSTWAR ECONOMIC POLICY AND PLANNING

FRIDAY, DECEMBER 14, 1945

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POSTWAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met, pursuant to adjournment at 10:30 a. m., in room 1012, New House Office Building, Hon. Eugene Worley (chairman pro tempore) presiding.

Present: Representatives Worley (chairman pro tempore), Gifford, Reece, LeFevre, and Simpson.

Also present: Edwin B. George, consultant to the committee.

Mr. WORLEY. The committee will be in order.

I understand Mr. Donald Montgomery, chairman of the cost-of-living committee of the CIO was originally scheduled to appear before the committee this morning to testify on the removal of wartime restrictions and controls. However, information has been provided us to the effect that Mr. Montgomery is at the present time engaged in some negotiations with General Motors, which prevented his appearance.

In his place we have Mr. Leo Goodman, secretary of the cost-of-living committee of the CIO, here with us today. We would be glad to have your opinion, both personal and official, as to what you think Congress should do in removing wartime controls.

Mr. GIFFORD. What do you mean by "official?"

Mr. WORLEY. I assume you speak for the committee officially.

Mr. GOODMAN. I have a prepared statement.

Mr. WORLEY. Is it very long?

Mr. GOODMAN. I have tried to make it short and will cut it in the appropriate places.

Mr. GIFFORD. Has that been submitted to the officials, the head of the CIO?

Mr. GOODMAN. That is right.

Mr. WORLEY. If it is very long you could insert it at this point in the record, and then give us the highlights.

Mr. GOODMAN. I have just given the reporter a copy and would like to get into it, so that if there are any questions—

Mr. WORLEY. Will you proceed, please.

Mr. GOODMAN. The CIO is very glad to have this chance to appear before your committee to urge the maintenance of price control and to point out some of the things that must be done if price control is to be of maximum service to this country.

STATEMENT OF LEO GOODMAN, SECRETARY, CIO COST-OF-LIVING COMMITTEE

Mr. GOODMAN. It is generally known that labor is very much concerned about price control. It is not generally known that the CIO has had a committee working on price control since the middle of June 1943.

This committee, of which I have the privilege of being secretary, consists of six representatives of CIO international unions.

In the last 3½ years, we have participated in frequent discussions of OPA price and rationing policies, and have studied carefully the regulations issued by OPA.

We have approached the problem of effective price control with the idea in mind that this agency has two responsibilities to the people of America:

1. To hold down the cost of living.
2. To maintain those price and cost relationships which will be conducive to prosperity and full employment when the war and the reconversion period are over.

BUSINESS CHARGES AGAINST OPA

We have observed the clamor from business and industry groups against price control as such, and against specific actions taken by OPA. Most of these groups have declared that OPA regulations were hampering or wrecking business because they either limit profits drastically, or eliminate them altogether. There may have been some few instances where OPA regulations were unnecessarily severe on business. But in most cases, the reports of industry earnings which are issued by governmental agencies, as well as by private research organizations, completely refute these charges.

The figures show that under price control there has been very generous profits both for big and little business, and for practically every type of business operation.

I am at a loss to know how much time to give to these figures in this statement because they have been presented to Congress on so many occasions, and they have been publicized widely. However, they are actually not common knowledge, primarily because of the determination of business groups to discredit the figures and to becloud the issues.

Last June, the CIO discussed these figures with the Banking and Currency Committees of both the House and the Senate. At about the same time, Mr. Bowles released some of these figures to the public and commented as follows:

* * * average profits, industry by industry, range from earnings, by a bare handful, only slightly in excess of industries prewar profits to earnings 10 and 12 times what was realized by the industries before the war.

For corporations of all sizes in all fields, Department of Commerce studies show profits before taxes in 1943 were about 2½ times greater than in prewar 1939. Even after the payment of high wartime taxes, 1943 earnings were more than double earnings after taxes in 1939.

In 1944, profits before taxes continued to rise above the record-breaking 1943 level. And earnings after taxes in 1944 were about the same as in 1943, despite the increased tax rates.

I want to emphasize that these high profits have prevailed in industry after industry which have, nevertheless, appeared before OPA

and before Congress to shed the bitter tears of poverty and plead for even higher profits.

Now that the war is over, the story has changed a little bit. The plea for price increases is being made now, not so much on the basis that present prices are too low for present costs. Instead, industries are arguing that prices must be increased to anticipate cost increases which may take place in the future.

An example of this kind of an increase is the one currently being made for shoes at the manufacturing level. A survey made by OPA in response to a request by shoe manufacturers showed that the 1945 rate of profit on civilian shoe sales is 8.16 percent. The rate of profit which would be needed in 1946 to satisfy the industry earnings standard would be only 2.9 percent. Nevertheless, OPA has already announced that the shoe industry will be given a price increase, around the first of the year, of 4.5 percent.

This increase to an admittedly highly profitable industry was made because the industry may make certain changes in styling in the months ahead and may incur certain costs in making those changes, and these costs may reduce profits below the prewar profits earned by the manufacturers as a group.

The industry people have advanced, as another argument in favor of this price increase, the fact that they are now going to be able to resume the use of the higher-quality materials which were denied them during the war. These higher-quality materials cost more, they contend, and therefore the price should be raised now that they are again available.

The fact that the higher-quality materials are available is absolutely no guaranty that they will be used. The deterioration in shoe quality during the war has been notorious.

I see no reason for assuming that the shoe industry will hasten to replace the low-quality materials with higher-quality materials without some pressure from Government. Where this pressure is to come from, I am unable to see.

However, the whole argument over the cost of materials falls of its own weight when it is remembered that OPA raised the ceiling on shoes when the industry began substituting the low-quality materials on the grounds that they were more expensive than the usual materials used by the industry.

It seems queer price control to raise the ceiling when the industry goes to wartime materials, and to raise it again when the industry returns to its original materials.

Business Week of December 8, 1945, reports that manufacturers of low-priced shoes felt "glum" about the 4.5 percent increase that OPA has announced because they feel they need a 10 percent increase instead of the 4.5 percent given them.

But—

the magazine continues—

privately they admit they have cause for satisfaction.

It cannot be that OPA doesn't know these things about this price action. As a matter of fact, representatives of the CIO spread these facts before the OPA price people, and the decision to make the increase was made in full knowledge of the facts.

Why then was the increase made?

I am not in the confidence of the OPA, so I cannot tell why the increase was actually made. However, it is told about the industry threatened to come up here "on the Hill" and get 15-percent increase in prices if OPA didn't agree to a "reasonable" increase on its own initiative.

Perhaps I should emphasize that I have selected this price action only as an example to indicate the kind of pricing being done currently. It is not the only one being made today, nor is it typical of OPA's procedures at this time.

One of the most effective ways of increasing profits has been to lower the quality of the commodity sold at the same, or even higher, prices. This practice may be called quality deterioration or up-grading, depending on the circumstances in which it occurs.

It could manifest itself in the sale of lower-quality goods at each of the current price lines, while the price tags remained unchanged, or, as happened so dramatically in clothing, it could manifest itself in the complete disappearance of the low end price tags, while the quality of the goods sold at the remaining price levels became lower and lower.

Since neither OPA nor the WPB ever set real quality specifications, the manufacturers and sellers both have had a practically free hand in this respect.

It must be pointed out that OPA did try to regulate prices on the basis of quality standards in a number of fields, until Congress ordered OPA to stop it. In the food industry, the result was that consumers paid grade A prices for large quantities of canned foods which were undoubtedly of grade B or even grade C quality.

That this was bound to happen with the Army buying practically all the high-quality pack was clear even at the time Congress forbade the use of grade labeling.

Canned goods were not the only foods in which the up-grading took place. Butter and meat were other foods which were sold at top prices regardless of whether the sales were actually top quality. The cost to the consumer was undoubtedly terrific. The windfall to the packers and sellers was undoubtedly also very large.

In clothing, the disappearance from the market of the low-end items from each line has been very dramatic, and very expensive to the consumer.

In women's dresses, for example, the \$1.59 house dress early disappeared from the market. Or perhaps it would be better to say that the \$1.59 price tag disappeared and that the dress stayed on the market bearing a \$2.75 price tag instead.

Who was to know the difference, or be able to prove that the difference existed? After all, there was no standard by which to measure the quality of either price line.

Month after month during 1943 and 1944 the BLS reported that clothing prices were going up, at least in part because of the complete disappearance of the low-cost items.

Perusal of the BLS monthly reports show warnings on—

June 1943.—Cotton underwear, pajamas.

July 1943.—Women's percale house dresses, men's business shirts, chambray work shirts.

September 1943.—Women's fur-trimmed coats, women's wool coats, children's shoes.

January 1944.—Cotton and rayon dresses, girdles.

February 1944.—Men's work shoes, men's and women's felt hats, women's rayon underwear, girdles.

March 1944.—Work clothes, men's felt hats, men's shirts, men's shorts, men's pajamas, women's underwear, women's cotton night clothes.

April 1944.—Women's inexpensive rayon dresses, girdles, women's percale dresses, men's and women's felt hats, business shirts.

May 1944.—Girdles.

August 1944.—Fur-trimmed coats, untrimmed sport coats.

September 1944.—Children's clothes, underwear, house dresses.

October 1944.—Women's cotton house dresses.

November 1944.—Cotton house dresses.

An OPA statement made in February 1945 stated that five-sixths of the increase in clothing prices was due to the disappearance of these low-end price tags.

As an example of what this could mean in just one item, I quote from a trade publication for shoe distributors, Hides and Leather Shoes, which reported on April 15, 1944, that—

Footwear quality has declined under wartime pressure by an average of 29.4 percent, according to 440 shoe distributors who set the percentage of decline at levels varying from 5 to 77 percent.

The influence of this situation, profitwise, can be seen in the following figures:

The cotton-textile industry earned \$28,000,000 per year before the war; at the beginning of 1945, the industry was earning profits at the rate of \$365,000,000 per year.

The shoe industry earned 4.8 percent on sales before the war; during the first half of 1945 the industry was earning 8.1 percent on sales of civilian shoes. (Figures derived from sample study by OPA of firms making over one-half of all shoes.)

The apparel industry reported to OPA that between 1936-39 and 1944 sales increased 65 percent. Profits, however, increased 282 percent.

Over the same period of time, retail sales of apparel went up 93 percent by OPA's figures. The increase in profits on these sales, by OPA's conservative figures, was 360 percent.

This disappearance of low-end lines, and deterioration in quality so that high prices were charged for lower quality than usual, with consequent penalty to the consumer and profit to industry, has taken place in practically all fields under price control. Not only must this situation be taken into account when analyzing the complaints of manufacturers and sellers; I urge that this committee give positive consideration to making recommendations for plugging this tremendous leak in the price-control dam.

DECONTROL

Just as we have advised with the OPA about policies during the war, we have made efforts to consult with OPA officials each time a change in the war situation has required a rethinking of price-control policies. Each time the program has been redeveloped, we have pointed out and argued against the inflationary aspects of the policies being adopted.

Time and time again, we have repeated President Roosevelt's admonition that the way to hold the line was to hold it, not to find reasons for raising things a little here and a little more there.

The latest of these price-control developments is the decontrol program. This is the program, outlined in a directive issued by Economic Stabilizer, Will H. Davis, on July 13, 1945, for removing ceilings from items now under price control.

Incidentally, we first learned about the proposed decontrol program by reading the *Journal of Commerce*, not from the OPA.

It is noteworthy that consultation by OPA with the groups which benefit from its price increases has been fulsome, while consultation with the representatives of those who have to pay the price increases has been haphazard and infrequent.

On July 27, 1945, after studying OPA's decontrol proposal and the directive issued by the OES, labor protested both the announcement of a decontrol plan at that time, and the specific provisions of the plan which had been developed.

We pointed out that publication of a decontrol plan at that time would encourage all the antiprice control forces in the country to press for the end of price control on specific items as well as for the end of price control in general.

We pointed out, too, that the directive would permit the decontrol of items which are significant in the cost of living if, at the time of exemption, these items were selling below ceiling prices. However, if these prices did later rise, ceilings would be restored only with difficulty, and at levels higher than those of the previous ceilings.

Under the plan, also, exemption is permitted for items which were not regarded as significant in the cost of living even if a future price increase was regarded as possible. However, no practicable definition was given to indicate which commodities, or how many of them taken together, significantly effect the cost of living.

Later events showed how sound our position actually was. However, immediate confirmation came in the form of the expressed opinions of OPA's own field people.

For example, on August 14, 1945, a price executive operating in the outlying possessions wrote to the national office as follows:

A large number of merchants here have started licking their chops in anticipation of the widely-heralded intention of the national office to exempt a considerable number of so-called luxury goods from price control. We have thought the problem through very carefully for the past month, as I indicated in my last progress report, and have come up with at least a dozen arguments both pro and con for local exemptions. After considering all these arguments and after obtaining the best possible sample of community sentiment, I have decided as a matter of general policy that we will not fall into line as a matter of course with the exemption orders to be issued by the national office for the mainland. Atomic bombs and Moscow notwithstanding, this area is and will remain a tremendous inflationary bubble for a long time. After 3 years of listening to us talk about holding the line the community has become almost convinced of the salutary effect of our actions here and expects us to continue to hold the famous line so long as the need is evident.

The opinion expressed in this statement, and the description of the inflationary tendencies inherent in the situation, apply to Hawaii.

However, experience and opinions of other price executives showed that the same tendencies existed in this country as well.

For example, in August of 1945, the San Francisco office of OPA commented as follows:

We have recently learned that decontrol actions are of two types—avowed and concealed. The avowed actions are, of course, the exemptions and suspensions. There are also, however, actions in other forms, which look like regular price actions, but are in fact actuated by a decontrol motive. The outstanding example to date is the automatic pricing formula under reconversion for manufacturers having a volume—annually of—under \$50,000. It was a relief to us to learn recently that this action was a concealed exemption, and was taken for valid reasons with full knowledge that this would be its effect. One practical problem emerges, however. It is apparent that some orders and amendments will in the future be issued on a liberal basis with the real intention of effecting exemptions; others will be formulated under ordinary price control standards. It is vitally important for the field to know which is which, as we should obviously take a different approach when we are administering a “we don’t really care” ceiling rather than a ceiling intended to effect tight-price control. If the national office is scrupulous in giving us these explanations, it will be possible for us in the field to appreciate and evaluate national policy correctly. Otherwise, these looser pricing actions, which may be genuinely motivated by sound policy considerations, will look like more surrender in the face of pressure.

It is easy to recognize at this point the vital importance of price control in the future, particularly in such fields as food, clothing, consumer durable goods, consumer services, building materials, and construction services. We must also be prepared to face greater difficulties as a result of the removal of other controls which formerly helped us. As rationing dwindles, it becomes that much harder to hold the price line. The same is true of controls being dropped by other agencies such as WLB, WPB, ODT, and WMC. It is obvious that it will not be sufficient to relieve the pressures by decontrol in less essential fields; we shall also have to do a better job affirmatively in the fields which remain.

Now, as to direct operation of decontrol.

In August, food still needed price control; the public still wanted it. However, OPA was already in the decontrol business. The effects of its decontrol orders began to be felt immediately.

For example, on August 1, 1945, one of the price executives out in the field reported to Washington as follows:

The suspension of ceiling on several fresh vegetables items resulted in increased prices and widespread consumer complaints. This was particularly true of snap beans, where prices advanced from a community ceiling of 17 cents to as high as 60 cents per pound. Lack of demand and increased supplies have now reduced this item to a price range of 19-35 cents per pound. Lack of more specific control on tomatoes continues to bring in consumer complaints against 40-43 cents per pound prices.

The administrative burden of decontrol and its effect on prices is serious. The effect of the decontrol policy, which may or may not have been anticipated by OPA, is best described in the words of the Deputy Administrator for Price, Mr. Jerome Ney:

In recent weeks much time has been spent in discussing the advisability of taking decontrol action in specific instances upon principles going beyond the provisions of Directive 6S. As a result a heavy work-load has developed in a number of the branches and this work-load threatens to continue and even increase to the point where it may interfere seriously with day-to-day work to the detriment of over-all price control and to the disadvantage of industry in general.

EFFECTS OF DECONTROLLING

I have already shown the direct results of this policy as far as snap beans are concerned. You may recall that after the removal of ceilings the price of beans went from 17 to 60 cents per pound. Even

after an increase in supply, the price, although it declined, remained higher than the previous ceiling, with some people still being required to pay more than two times the previous ceiling price.

In the case of citrus fruits, OPA removed ceilings on November 19; the following day prices began to jump. OPA's field offices reported increases ranging as high as 100 percent in the same qualities and sizes. For instance, the Chicago regional office announced that—

Large California oranges long held to the OPA ceiling of \$5.28 were sold for \$9.95 per case on the first day following suspension of ceiling prices, by today were down to \$8.20.

Spokane, Wash., reported on November 27 that Texas pink grapefruit had gone up 58 percent; in Seattle increases ranged to 68 percent. Similar increases were reported from all over the country on all citrus fruits.

On November 28 OPA turned down labor's request to reinstitute the price ceilings, preferring to "watch the prices" for another week.

At the end of that week, that is, on December 5, OPA was sufficiently impressed with the seriousness of the situation to recommend to the Office of Stabilization Administration that the ceilings be reimposed.

The Department of Agriculture and the citrus growers objected to this action, so it was decided to postpone again the decision another week.

The result is that citrus fruits remain without price control during the pre-Christmas buying season, the period during which control was most needed and the people will pay a large sum of money because of the Government's eagerness to remove economic controls.

The newspapers told the story of what happened to the price of coconut when price ceilings were removed. This item sold before the war, according to newspaper reports, for \$15 per thousand pounds; during the war the ceiling was maintained at \$65 per thousand pounds. Recently the ceiling was removed and the price shot to well over \$200 per thousand pounds. Candy manufacturers have found themselves unable to buy an item which is very important in their business. At the same time the people who held stocks of coconuts at the time of decontrol have cleared up some very tidy windfalls.

Some of you may recall what happened to the price of Alaskan seal fur when, on August 15, 1945, OPA removed the price ceilings. The price had been held at a ceiling of approximately \$45 per skin; when the ceiling was removed prices shot up. Recently, sales were being made at \$110 per skin.

I have dwelt at length on the decontrol problem because even after all that has already happened, there seems to be no inclination to greater caution.

Even the strictures of Mr. Ney, which I quoted above are confined to decontrols beyond the provision of the decontrol directive, No. 68. Decontrol under the terms of the directive proceed as before even though it has been under these terms that so much damage has already been done.

I could go on with many other examples to show what the effect of the removal of price ceilings has been. I think that the case is already clear.

I think that one would be hard put to find the words to describe adequately the irresponsibility, the sheer economic criminality involved in the proposals now being put forth and actually before Congress at this time, that price control be abolished in toto, or that the decontrol program of OPA be extended at this time.

RECONVERSION PRICING

In the field of reconversion prices, as well as in its going price control program, OPA has proceeded as though the poverty claims of industry were correct, and its own knowledge of the situation could not be relied on.

The Labor Policy Committee of the OPA entered into the discussion of reconversion pricing in July of 1944. In September of 1944, after some discussion with the OPA of the reconversion price policy that it was already drafting, the CIO Cost-of-Living Committee recommended to OPA that reconversion prices be set at no higher than the 1941-42 level. We declared that it was the responsibility of OPA in this tremendously important area to protect the standard of living of the American people against further increases in the cost of living, and to provide a postwar price level conducive to full employment.

We urged that increases from these 1941-42 prices be permitted only after a manufacturer had operated under his old price for a period long enough so that reliable operating data could be obtained. Of course, our recommendations provided for exceptions to this policy where circumstances clearly required an immediate price increase.

We believed then, as we believe now, that industry would be well protected by the 1941-42 price level, by the reserves amassed during the war, and by tax and other governmental guaranties against hardship during the reconversion period.

We believe that after reconversion is over, the profits that would have resulted from production at 1942 prices, especially as they would be effected by operation at high levels of output and increased productivity, would have been at least ample for industry. They might even be so great as to threaten the stability of the entire Nation.

The recommendations we made on OPA reconversion pricing were not adopted.

However, since we made those recommendations, reports have been issued by the War Production Board, the Department of Commerce, and the Office of War Mobilization which have at various points supported the validity of our position. President Truman evidenced the same kind of thinking which we had done when he suggested that industry make voluntary wage increases and then wait 6 months before asking for consideration from OPA of price relief.

OPA, too, has since admitted the validity of our position by pointing out, in its press release of November 18, 1945, that its reconversion policy is based on the 1941 levels of production, and that 1946 levels should provide the opportunity for higher profits than those which prevailed in 1941.

Let me point out that even 1941 profits were higher than the prewar profits which OPA is required by law to protect.

A recent study of 2,085 manufacturing companies made by OPA showed that their profits were 2.7 times as high in 1941 as in 1936-39.

In spite of this high profit situation, arising out of postwar production prospects at even prewar prices, OPA has made price increases for the manufacturers of practically every reconversion commodity.

Washing machine manufacturers have been given a price increase of 7.7 percent.

Vacuum cleaner manufacturers have been given a price increase of 5.5 percent.

Lawn mower manufacturers have been given a price increase of 17 percent.

Metal toy manufacturers have been given a price increase of 14 percent.

Radio set manufacturers have been given a price increase of 12 percent.

Radio parts manufacturers have been given price increases which will bring in approximately \$100,000,000 per year.

Fractional horsepower motor manufacturers may raise prices 9 percent.

Automobile manufacturers are being treated on an individual basis. Two of them have already received their increase factors: Ford, for whom increases will average about 6 percent, and Studebaker, for whom they run around 12 percent.

However, there is already evidence to show that manufacturers who receive no increase factors, or whose factors may be low, will reap their windfalls through price increases for specification changes, rather than through admitted reconversion increases.

In all of these reconversion industries, production will be far higher than it was in 1941. The profits of these higher prices plus those resulting from increased levels of output, and from increases in productivity which will soon be felt, will yield profits so high that depression and unemployment are inevitable in the near future.

Most of the industries involved complain to the world in general and to Congress in particular that OPA is "ruining them." If there is any validity to that charge, it is that OPA's generosity in making price increases, rather than its ungenerosity in refusing them, may ruin American industry.

BASES FOR PRICE ACTIONS

A. Secrecy of negotiations

It has been our position that fewer of these harmful increases would be made if OPA were required to reveal to the public the facts on which the decision to make a price increase is arrived at.

Labor's repeated requests for public information have been just as repeatedly denied by OPA. Labor has been told that individual firms would feel aggrieved if OPA revealed its data to its competitors.

And then we have been told that there would be objections from an industry as a whole when we have asked for data which did not reveal facts about individual firms.

So the negotiations between OPA and the industry asking for a price increase is carried on in secrecy, with no chance for the public to get the real facts.

B. Insufficiency of data

This extreme solicitude for those wanting price increases has been shown by OPA in many other ways. Let me cite an example.

In the case of radio parts, price increases ranging from 9.5 percent through 26.3 percent were made after OPA had had the following experience with the parts manufacturers (the quote is from OPA's press release of October 11, 1945) :

Despite repeated requests by the Office of Price Administration for the submission of cost data for use in computing the increase factors for radio parts, and despite assurances of representatives of the industry that such cost data would be supplied, cost data were not submitted to OPA as promised, OPA said.

As I pointed out above, the price increases—made after this refusal by the manufacturers to supply data—are expected to yield the manufacturers approximately \$100,000,000 per year.

In our discussions with OPA, we have been told repeatedly of cases where OPA's accountants had to be sent from the Washington office to go over the books of an individual firm in order to get the data upon which a price increase was to be based.

C. Unverified data

OPA's decisions involve the transfer of large sums of money from the pockets of the buying public into the treasuries of the sellers. The business which is asking for an increase might be expected to prove its case up to the hilt, before the regulatory agency, even if not before the public as we have asked.

Quite the reverse is true. Figures submitted by manufacturers who are asking for price increases are accepted by OPA without further review or verification.

How many millions of dollars have been added to industry prices in this manner cannot be estimated. I do not know, however, that the automobile increases are being made on exactly this basis.

Frequently, however, the decision to make a price increase seems to be made with no relationship to what the figures show about the profits of the manufacturer. Let me quote from a series of OPA truck price increases, made during 1944 and 1945.

| Corporation | Date | Increase | Reason |
|-------------------------|---------------|----------------------------|--|
| Viveco Corp..... | Oct. 18, 1944 | 16 percent..... | "It appears that the applicant's over-all profit position is unfavorable." |
| Chrysler Corp..... | May 5, 1945 | 9 percent..... | "The applicant's current over-all profits have a normal relationship to its over-all profits during the base period, 1936-39." |
| Diamond T Motor Car Co. | Nov. 3, 1945 | 6, 11, and 23 percent..... | "It appears that the applicant's over-all profits position is very favorable." |
| General Motors Corp. | May 11, 1945 | 27 percent..... | "No description in OPA's statement of consideration as to what the profit situation was." |

D. Net worth adjustments

A type of statistical legerdemain which underlies all OPA's price determination is known as the adjustment for increases in net worth. That is, in judging the fairness of a particular price, OPA inspects the return on the net worth of the industry which results from that price, as compared with the return on net worth earned by that industry before the war.

If the net worth of an industry has increased during the war, a price increase may have to be made in order to protect the rate of return.

However, the net worth increases which have taken place have in large measure been the result of the accumulation by industry of large cash and bond holdings. These have resulted from large profits earned by an industry and becomes part of the new base; and the reason for additional price increases which contribute further to the profits of the industry.

E. General rescue

In presenting to Congress and to congressional committees their allegations about OPA's pricing cruelties, industry pressure groups generally have omitted any reference to the special price increasing mechanism which OPA has provided for those individual firms or groups of firms which are not satisfied with the specific regulations themselves.

Among these special mechanisms there is one referred to in OPA as the general rescue regulation. This regulation provides relief whenever a current price threatens to put any manufacturer out of business. Such a manufacturer may apply to the OPA regional and district offices for a price increase, which will assure him of recovery of the total cost of producing an item.

In our judgment the regulation is so loosely drawn as to remove from under price control the products of any manufacturer who feels that his activities are not significant enough to invite careful OPA review of his pricing methods. It removes a large share of the economic pressure on an inefficient manufacturer to become more efficient. It underwrites a plant which is producing at less than capacity, when capacity production might be necessary for economic production.

It provides for price control on the basis of self-regulation with only the most perfunctory and "rubber stamp" type of review by OPA. It is a surrender to a kind of price control which OPA had resisted in the past as being inflationary, and as price escalation rather than price control.

SUMMARY

In summary, we have seen for a period of 3 or 4 years the price-control agency, which was set up to hold the price line, yield again and again to pressure for price increases from industries and business groups which could show no economic justification whatsoever for the price increase. The evidence for this lack of need for price increases is contained in the financial statistics of every governmental agency which collects such figures.

These increases were made at the expense of consumers who were caught by war shortages, and by the necessity of adjusting to other wartime conditions. They are made at the expense of the veterans and of every other group in the national economy whose living depends on full employment and prosperity, rather than unemployment and depression.

We have often congratulated ourselves on the fact that the cost of living in this war has risen less than during World War I. There may be some cause for satisfaction in this comparison. However,

this is indeed a weak test of the effectiveness of this crucial economic operation. We had as much right to expect victory on the economic front as on the military front. We have the right to test the increases in the cost of living by the necessity there may have been for making them. The evidence shows that the people of this country could have been saved billions of dollars in their own purchases and in the expenditures of the Government if price increases had been made only on the basis of need.

We are conscious of the fact that OPA made some of these increases only as the result of great outside pressure. We are conscious, too, that the pressures often came from individual Congressmen and groups of Congressmen, and that OPA at times yielded reluctantly because it could not stand up to the pressure exerted on it. It is neither our duty nor our responsibility to apportion the blame for pressure-made price increases as between OPA and some Congressmen. This committee is in a far better position than we are to do that job.

We do request, however, that this committee use its influence on behalf of price control, conceived in the terms in which price control was originally adopted; that is, the protection of the consumer, the protection of the economy of the Nation as a whole, the protection of Government expenditures.

While OPA cannot undo much of the harm that has been done, we insist that OPA be permitted and required to maintain its specific price controls until there is clear evidence that price control is no longer needed, and to administer its price controls until there is clear evidence that price control is no longer needed, and to administer its price controls on the basis of protection for the country as a whole instead of a segment thereof, and prevent further damage to the consumer and to the Nation as a whole.

MR. WORLEY. In your statement you say records show that through price control there has been very generous profit to both big and little business and for practically every type of business operation. Do you have any figures to substantiate that?

MR. GOODMAN. Yes, I have a number of different types of profit data, but one of the things that is most startling, one of the groups that have been most profitable, have been the retail trades.

MR. WORLEY. Where do those figures come from?

MR. GOODMAN. From a variety of sources, including the information put out by the National Retail Association.

MR. GEORGE. Dry goods?

MR. GOODMAN. Yes, National Retail Dry Goods Association, and a series of studies published by a number of the universities.

MR. REECE. Do you have them in some condensed form or have limited illustrations, which could be included in the record?

MR. GOODMAN. Yes, I do; the kind of source material I use, for example, those two studies of the Harvard School of Business Administration—

MR. GEORGE. Mr. MacNair's?

MR. GOODMAN. Yes, sir.

MR. WORLEY. We are trying to establish first if your figures are accurate and reliable.

The committee has had any number of different sets of figures presented to it, and the side presenting one set will say that they are abso-

lutely accurate, and then later on another witness on the other side of the fence will attack those figures.

It is difficult for us to determine exactly what is correct.

Mr. GOODMAN. I understand the problem of the committee, and as a result, in this particular material, I will quote to you only, at this moment, from the National Retail Dry Goods Association.

Mr. GIFFORD. Will you select those that are favorable to you or will you give us the whole picture?

Mr. GOODMAN. I will be glad to put the entire volume in.

The reason workers need wage increases are shown here—I have “basic data in margins” showing, an index of gross margin, salaries, expenses, index of profits to sales ratio, index of sales volume, and index of dollar profits for the department and specialty stores, in the aggregate and by size of store.

I am sorry to say, gentlemen, but the figures show—and these are the industries’ own figures—that the department stores—and I am taking the extreme case, department stores doing over \$10,000,000 business a year—have had a profit increase from the base of 1936 to 1939 of 100 percent to 2,508 percent.

Mr. WORLEY. Gross profits before taxes?

Mr. GOODMAN. Gross profits.

Mr. GIFFORD. Does that take in grocery stores?

Mr. GOODMAN. No; it is the department stores doing a volume of \$10,000,000 sales or more.

Mr. GIFFORD. I think your figures may be right, but how about your retail stores, such as grocery stores?

Mr. GOODMAN. I will be glad to go into that.

Mr. REECE. I notice this pamphlet by Professor MacNair, by his department, has this reference in it:

The net gain before Federal taxes and income and excess profits rose to a record high of 12.3 for department stores and 10.4 and one-half for specialty stores.

Mr. GOODMAN. For every dollar that you spent in the department stores, the stores have ended up having 12.3 cents gross profits.

Mr. GIFFORD. Gross?

Mr. GOODMAN. Yes, sir.

Mr. SIMPSON. That is not any too much, is it?

Mr. GOODMAN. The prewar figure starts at 1.5 cents.

Mr. LEFEVRE. Why don’t we get these down on a net profit basis because of the taxes?

Mr. GOODMAN. At the moment I am discussing the percentage on sales.

Mr. REECE. This is an observation I intended to make, Mr. Chairman, which seems to me a rather important consideration in connection with this problem. Let us have a discussion of profits and the effect thereon of the operation of controls at the present time, and a discussion of the attitude of yourself and your organization with reference to the desirability, or contrarywise, of relaxation of controls as soon as the emergency conditions will permit, also what is your view of reverting to prewar considerations to regulate the question of profit and other phases of distribution?

Mr. GIFFORD. Might I add to that? You don’t mind my suggestion.

I was just looking over one of my largest industrial firm’s reports.

They made money, but their inventory is quite exhausted, and they say to get that inventory back again it is going to cost them mightily and wipe out all their profits. Their inventories are low all around.

Mr. GOODMAN. I made reference to the question you raised, but I will be glad to submit for the record a completed policy that was worked out by our committee and approved by the CIO as a recommendation on reconversion pricing policy.

We submitted this to the OPA: Our recommendations were not accepted, and as a result, in our opinion, many of the problems that have occurred since in the whole process of reconversion pricing have failed and I cite instances in our statement where they have failed and failed seriously.

Mr. REECE. I think it might be desirable to have this go in the record, but I am not yet sure, Mr. Goodman, that this deals with the phase of the problem that I had in mind, which seemed to me to be rather important. We all recognize that we have been and are now confronted to a certain extent with the necessity of some type of control, but in a reasonably short period of time the war emergency is going to pass. As to whether we drift into another emergency is another matter.

Now, is it the attitude of your organization that controls should be projected on indefinitely into the future?

Mr. GOODMAN. No.

Mr. WORLEY. Your first point is that almost everybody has made money.

Mr. GOODMAN. That is right.

Mr. WORLEY. I think we can agree on that. Now, what is your next point?

Mr. GOODMAN. We developed the point that some of the controls are not being properly administered at this point or maintained in the present emergency—and to go on and cite cases of that—we feel, and I think I can say for our group as a whole, I know we have adopted the statement to this effect:

That we don't want controls for the sake of controls, and as soon as the situation permits, and production has reached an adequate level, we feel that price controls should be eliminated.

Mr. GEORGE. Have you any tests of adequacy that are defined?

Mr. GOODMAN. We have them in that statement there.

Mr. WORLEY. If there is no objection to inserting in the record this statement, we will insert it at this point.

(The statement referred to is as follows:)

CIO COST-OF-LIVING COMMITTEE

RECOMMENDATIONS OF RECONVERSION

Price policy

Responsibility of OPA

The responsibility of OPA in reconversion pricing is—

A. To protect the standard of living of the American people against further increase in the cost of living, and

B. To provide a postwar price level which is conducive to full employment.

It is not the responsibility of OPA to bring about the resumption of production. The major inducement to the resumption of production exists in the desire on the part of most manufacturers to get into the race for postwar markets.

The critical issue is whether OPA will live up to this responsibility or whether it will attempt to induce production by guaranteeing profits through cost-plus price increases.

Our basic recommendations

It is recommended that the following principles be adopted for pricing products which have been out of production during the war and are again to be produced for civilian use.

1. The last price ceiling in effect prior to conversion (1941 or 1942) should be the price ceiling upon reconversion.

2. Exceptions to this rule in the form of higher than 1941-42 ceilings should be granted only—

(a) After a period of experience with operations under the 1941-42 ceiling; this period shall be 3 or more months, depending on the accounting period employed by the petitioner;

(b) Or, only as a self-terminating exception usually of no more than 3 months' duration from 1941-42 ceiling;

(c) And, with the burden of proof resting upon the seller to justify the exception; any renewal of the exception, if granted, shall be on the basis of new and complete proof that a new exception is necessary;

(d) And, when such proofs establish the existence of extraordinary and apparently permanent shifts from pre-war production conditions, rather than temporary abnormalities incident to the transition from war to peace production.

3. Public relations on reconversion issues and policies should be given equal emphasis with the operating program, to the end that policies may be both formulated and executed under the influence of widespread public understanding and interest, in contrast to the predominantly corporate and mercantile influences under which wartime stabilization has operated.

4. In acting on petitions for exceptions from the 1941-42 price level, the guiding principle should be to establish that relationship between the price level and the wage level which is consistent with maximum output and full employment on a long-time basis.

5. Exceptions granted under such a program must, as far as practical, assume a high level of production and should fully reflect actual and probable increases in labor productivity. In no case should OPA set a price which, at capacity production, would bring more than the margin of profit earned in the last pre-war year 1939. Where more than one article is being manufactured in a plant, the profit determination shall be based on the over-all operation, including civilian and war production.

6. Petitions from members of the same industry should be considered together wherever possible and a price should be set that is "generally fair and equitable." The determination should take into account any information which may be available on the extent to which the petitioner is making use of technological developments in the industry.

7. In no case should a petition for an increase from either one firm or a group of firms receive consideration while there is reason to believe that production is being restricted for the purpose of exerting pressure for higher prices. Such policy on the part of OPA toward manufacturers on strike would be in harmony with the unqualified refusal of the War Labor Board to consider wage grievance while labor is on strike.

8. All wage rate data submitted by a petitioner should be checked by OPA against reports obtained from the War Labor Board, including reports of wage rate increases during recent years. The stability of these wage rates under union contracts should also be examined.

Implications for full employment

The most serious aspects of OPA's pricing policy is its effect on postwar employment. If full employment is to be achieved, our vastly increased plant capacity must be fully utilized. This utilization will depend on the relationship between the price level and the general wage level. While we do not have the facilities to make a formal determination of this point, it is our belief that the 1941-2 price level was so high in relation to wages—even to 1944 rates—as to carry the assurance of widespread unemployment when the war is over.

To maintain a full employment economy, therefore, prices will have to be maintained or lowered while wage rates are held or raised.

A more extensive discussion of these issues is attached.

*Reconversion pricing**Objections*

The purpose to be served by regulating prices of peacetime products as they come back into production is to guide the price structure through alternating periods of deflation and inflation pressures so that stability may eventually be achieved under conditions conducive to capacity production and full employment.

This ultimate objective is stated by the Administrator in the release of August 17, as follows:

"Our pricing policies should encourage the fullest possible production of goods and services at the lowest possible prices to the consumer. Unless American industry produces to the limit of its powers, there will be an increased danger of depression and eventual collapse. * * * Everything possible must be done to encourage complete use of our productive facilities so that we maintain a level of output far above that of 1940.

"Our pricing policies will be based on this assumption."

On the road toward that ultimate objective are immediate problems which call for the adoption of interim pricing policies. Those policies should guard against both deflation and inflation which alternately may beset the national economy during its transition from all-out war demands to all-out peace possibilities.

But stating the ultimate objective and formulating interim policies are not the whole task confronting us. In addition we must recognize, and undertake to solve, the intricate, dynamic and politically supercharged question of what effect interim policies, while meeting interim problems, will have upon the prospect or possibility of achieving the ultimate objective. It is quite as possible, and a deal more likely, that we shall emerge into peacetime stability with the old patterns of scarcity firmly shackled upon us.

The test of each interim policy cannot be solely that it appears to meet interim problems in a satisfactory manner. It must be tested also against the influence it may exert towards a full-employment future or toward a return to prewar paralysis.

This element in reconversion policy is emphasized in the recommendations which follow.

Recommendation in brief

It is recommended that the following principles be adopted for pricing products which have been out of production during the war and are again to be produced for civilian use.

1. The last price ceiling in effect prior to conversion (1941 or 1942) shall be the price ceiling upon reconversion.

2. Exceptions to this rule in the form of higher than 1941-42 ceilings shall be granted only—

- (a) After a period of experience with operations under the 1941-42 ceilings;

- (b) Or, only as a temporary, self-terminating exception from the 1941-42 ceiling;

- (c) And with the burden of proof resting upon the seller to justify the exception;

- (d) And when such proofs establish the existence of extraordinary and apparently permanent shifts from prewar production conditions, rather than temporary abnormalities incident to the transition from war to peace production.

3. Public relations on reconversion issues and policies shall be given equal emphasis with the operating program, to the end that policies may be both formulated and executed under the influence of widespread public understanding and, interest, in contrast to the predominantly corporate and mercantile influence under which wartime stabilization has operated.

The 1941-42 base

In terms of the ultimate objective of capacity production and full employment, the 1941-42 ceilings are too high, rather than too low. A sizable deflationary gap between savings and investment probably will result unless lower prices and higher wage rates become the pattern of total conversion to peace production. It is clear, however, that OPA cannot now propose a price level below the last existent ceilings for these products. But certainly it should not propose a higher one. Although it cannot now move decisively toward the

ultimate objective, certainly it should not move in any degree away from it. The 1941-42 price level will not power the economy toward permanent prosperity, but it may serve as anchor to check further drift toward disaster.

Adoption of the 1941-42 level now as the norm for reconversion prices, rather than some day later on, is the only practicable way of tying to it at all. To say that OPA can set higher prices now and roll back later may seem to provide convenient escape from a present dilemma, but is wholly theoretical. Politics would not permit, and OPA's limited manpower cannot undertake, any general roll-back in prices. Nor could the tangled web of cost-price relationships be sufficiently unraveled to implement such a roll-back by regulation.

But of controlling importance is the dynamic effect of a roll-up now and a roll-back later. Nicely planned and neatly executed, such a scheme might stimulate confidence when deflation threatens and dampens enthusiasm when inflation impends. But experience has shown that OPA price controls lack the refinements of nice planning and neat execution. They are a battleground, not a precision tool. OPA may risk the initial roll-up, but it will never risk the deflation dangers of a roll-back.

There is, on the other hand, an element of practicality in adopting the 1941-42 level as the rule for reconversion. Price relationships among industries and among competitors are of importance to industry. The 1941-42 ceilings were derived largely from established relationships. Though doubtless altered considerably from prewar conditions, they were more normal than any that will result from raising price ceilings one by one in response to demands of individual companies and industries.

Exceptions from the 1941-42 base

No rule can have effective practical application unless it can be departed from. It ceases, however, to be a rule unless the departures from it are (1) strictly formulated and (2) consistent with it. The following suggestions meet these criteria.

(a) *Delayed exceptions.*—Since few, if any, of the reconverted industries will know in advance of production what their costs, sales, and profits will be, it is desirable to permit no ceiling above the 1941-42 figure until experience of 3 to 6 months at least has been accumulated as a basis of determining what exception, if any, needs to be made in a particular instance. Provision for recouping losses incurred during the delay period might be included in the exception regulations.

(b) *Temporary exceptions.*—Situations may arise, however, in which immediate exceptions are imperative. Such demands will be most pressing, perhaps, from those industries whose competition is so well under control as to enable them to carry out their threats to shut down and live on tax refunds rather than produce at prices below their demand.

Demands backed by such management strikes should, of course, receive no consideration. But legitimate demands for immediate exceptions will arise.

Therefore, when exceptions cannot be delayed for 3 to 6 months, exceptions on a temporary basis should be granted. Such regulations should be absolutely self-terminating, and usually of no more than 3 months' duration. The exceptions should cease at the end of the period without further action by OPA. New proofs by the company or industry should be required if a new exception for a succeeding period is to be granted.

(c) *Burden of proof.*—Unless the right to an exception must be affirmatively established by the seller, OPA will find itself in the position of being called upon to justify the 1941-42 ceilings. In that event the exception becomes the rule and the rule the exception. Justification for the 1941-42 rule should not depend upon any specific proof of cost-price-profit relationships, but in the necessity of checking any trend toward unemployment and underproduction.

Nor does the rule assume that we ignore cost-price-profit relationships in any industry: it assumed only what happens to be the fact, that for the most part we don't know what those relationships will turn out to be.

Therefore it is recommended that no exception be granted in any case except upon affirmative showing by the industry, or company of the necessity for it.

(d) *Nature of proofs.*—It should not be enough to prove simply that anticipated costs and prices will not pay out or permit resumption of production. Save in exceptional cases any prediction as to how costs and profits will turn out is largely conjectural. Nor will they be subject to realistic audit by OPA, either before or after production takes place, because there is no possibility that OPA will have sufficient manpower. Therefore exceptions from the 1941-42 rule should be granted only proof that the industry or company requesting it will

be operating under extraordinary circumstances other than the temporary dislocations due to reconversion.

For example, a showing that volume of output is not only temporarily, but permanently, curtailed by contraction of the prewar markets might be grounds for exception. Radical change in the type of market to be used could justify an exception also. Or there may be industries which can prove that no increase in productivity per worker has occurred since prewar, or can occur in the future.

Change-over of an industry from sweated labor to an organized basis might justify an exception, though the assumption that higher wage rates mean higher unit labor costs requires specific proof in each instance. Abnormally high costs or inefficiency of a particular company might call for an exception if alternative sources of producing the same commodity are not available.

These are examples only. The rule for granting exceptions, generally speaking, should be that the burden of proof of extraordinary deviation from the prevailing conditions of the transition period must be sustained by the applicant company or industry.

The critical issue

The critical central issue of the reconversion pricing problem arises from the proposal widely advanced by industry and seriously considered by OPA that the initial step toward a workable peacetime price level shall be the adoption of cost-plus, profit-insuring pricing formulas. Although the ultimate objective of capacity production calls for rigorous exploitation of every efficiency obtainable through advancing technology, the proposal is that we start in that direction by instituting a system which guarantees costs, or at least recognizes a claim by industry to a guaranty that costs shall be recovered. Such a beginning would move us away from our goal, rather than toward it.

The fallacy in this approach is that industry itself, save in extraordinary monopoly situations, cannot establish its prices for future production with any certainty of recovering costs. Forward pricing is always guesswork, because cost and volume and sales realization can only be estimated. In making that guess every manufacturer must hope for a volume of sales higher than he can be sure of. Any company which scales its prices only to a volume of business that is assured is either a monopoly or is about to price itself out of the market.

Moreover the guesswork in forward pricing is not merely a process of addition. The manufacturer does not guess his various costs, add them up, add a profit, and arrive at a price. Rather, he hopes for a given volume of sales, guesses the price that will move such volume, and then sets about tightening up his operations so as to bring costs in line with this price.

Now OPA must perform the guesswork of forward pricing. It cannot escape the risk or the responsibility of that task by transforming the guess into a guaranty. Cost-plus formulas may guarantee profits, but they cannot guarantee practicable forward pricing nor will they shape industrial policy in the direction of full employment. They are impracticable, and they tend toward scarcity not abundance.

Cost-plus pricing may be an excusable, though graft-ridden, expedient in wartime; it is sure-fire disaster in pricing for peacetime.

OPA must approach reconversion pricing in the knowledge that it is a guesswork, not a guarantee, process. To ignore that is to assure disaster. Even to recognize it is not to assure success.

Forward pricing performed by OPA differs from the normal business process in two important respects. These differences create special dangers.

In the first place, OPA will price the new products under conditions of restricted volume and unlimited demand, comparatively speaking. Therein lies the temptation to set prices which, while not too high to choke off consumption today, will become frozen into the cost-price structure of industry, and will generate a peacetime price level that prevents capacity production and full employment.

More precisely, the danger is that OPA by adding up estimated costs and profits to arrive at prices will not only ignore the cost-cutting potentialities of increased productivity and high volume, but will reward delay or indifference on the part of industry in exploiting those factors. The elementary economic principle that in an expanding economy prices place limits to costs is in danger of being replaced by the fallacy that production takes place and expends only when prices are set to cover predetermined costs.

The Administrator's August 25 speech in San Francisco suggests that this critical issue has not been fully thought through. On page 5 of the release

cost-plus pricing is proposed as a protection against deflation. The assumption at this point is that prices and costs are tied together by fixed differentials. On the following page, however, the elements of increased productivity and of high volume are introduced, but as though they confirmed the preceding analysis whereas in fact they contradict it. The resulting policy appears to be that, where productivity gains are known, costs will be transmitted into prices with that fact in mind, but where productivity changes are not known prices will be set on the basis of cost-plus.

The critical issue arises precisely from the fact that OPA does not know and industry does not know that productivity can be achieved. The only thing certain with respect to it is that under cost-plus pricing the possibilities of productivity will not be fully explored. These dynamic factors in the pricing process are never precisely known, but they must be anticipated and allowed for if disaster is to be avoided. A private business which ignores them goes to the wall. OPA, ignoring them, may paralyze the Nation's economy.

The second element of danger in the OPA task is that its acts are official; they are commands which are supposed to be obeyed. This exposes it to the fear of its own responsibilities. It will, therefore, tend to make its price guesses too high rather than too low, because it knows that repercussions from business against a too-low price will be immediate and forceful, whereas repercussions due from an unemployed labor force will come long after its too-high prices have been set, probably after OPA itself has vanished from the scene.

Another element of danger is that OPA must act upon such data as industry makes available to it. These may be far less reliable than the data upon which industry has at hand and would use for its own price determinations. Industry will not too greatly extend itself to help OPA carry through to success. OPA will not have resources for overcoming inadequacies in data available to it.

To sum up, the critical issue is whether the OPA can persuade industry to weather the squeeze of temporary high costs, unknown productivity and low volume during the interim period at the 1941-42 price level, with only few and temporary exceptions from that rule. If it can persuade industry to accept that level, it will stimulate productivity and hasten the trend toward capacity operation. If however, it must assure immediate profits, it will necessarily inaugurate a price level that spells far less than full employment for the long pull, which it will not be able to roll back, and which will be deflated only when shaken out of the price structure by a catastrophic recession leading perhaps to a major depression.

Public relations

The chances that OPA can administer this transition to a workable peacetime price level will depend as much upon its public relations officers as upon its businessmen, economists and industry advisers.

The overwhelming preponderance of short-sighted, self-defeating views on prices and profits in the business world at the moment leave only one hope that OPA can avoid failure in the delicate task ahead of it. That hope is that the stake held by every person in the United States in this question be made known to them more forcefully, simply and dramatically than has been accomplished on any OPA questions to date. Only against a background of public opinion made acutely aware of how largely the future prosperity of the nation is right now being decided can there be any chance whatever that OPA will escape less than total rout at the hands of powerful groups seeking immediate profits.

One element in such a program is gold-fish-bowl operation. The decisions OPA is making are not private transactions. Nor are they wholly technical decisions. Every one of them touches the whole public intimately, and every one of them can be described in terms of the everyday experiences of everybody.

Behind such a public relations policy, to give it substance, there must be an operating policy if participation by all interested parties. Labor advisory committees should be full participants. The recommendations, facts and arguments of both industry and labor advisory committees should come together in open session before the officials charged with determining reconversion prices.

Another element is the duty of OPA, as a Government agency, to champion the cause of citizens against the unjustified demands of private interests. When OPA is under pressure to yield unjustifiable gratuities, it does not have a choice to fight such demands secretly within its conference rooms. It is obliged to report and describe these demands officially. To keep silent with respect to them is to conspire in them.

Another element is accuracy as to issues. For example, the essential issue as to postwar prosperity is that prices be held down and wage rates be held up to the full extent made possible by capacity production and output per worker. For further example, the issue involved in 1941-42 prices is that they are too high to permit stability at present wage rates. Higher wage rates will be required to support volume output if the 1941-42 price level is restored. References, therefore, to wages and prices as though they necessarily advance and decline together, or that any decline from war prices means reduced wages, confuse these issues and feed prejudices that are already too well nourished by the daily press. Recent repeated assurances by OPA that positively it will not put prices at levels that will force wages down have this misleading effect, and further prepare the public to believe that every increase in price allowed by OPA is attributable to high wage rates.

Finally, if OPA undertakes to deal realistically with the critical issue confronting it, it will have to make quite clear that it is not pricing to guarantee profits but is pricing temporarily to weather the transition period hoping to come out eventually at a full-employment price level. It can show how reasonable this is if it takes pains to relate the many cushions and safeguards available to capital during this period. It can describe the operation of the tax law to pay profits back to corporations, the cash loans available from the Treasury, as well as the enormous cash resources of most industries today. It can point out that industry profits at 1941-42 prices were high enough to permit some absorption of increased costs since that period. It can observe and translate the terms in which Government-owned plants and machinery are turned over to private industry. And it can undertake to write into its regulations, and to explain to the public, provisions for letting a manufacturer recoup from an adjusted price ceiling, losses sustained under the figure originally set. In short, the insurance provided and to be provided to invested capital is so extraordinarily generous that public support for the reconversion pricing program herein proposed can be anticipated, provided the public is made privy to the problem and a party to the solution of it.

Mr. WORLEY. Your position is the same as most everyone else. We are all for sound price controls until production meets demand, which will remove the inflationary dangers. Is that correct?

Mr. GOODMAN. Yes.

Mr. WORLEY. How do you propose that those tests of adequacy be applied? What are your tests as to whether these controls can be removed?

Mr. GOODMAN. We object to the way they have been applied up to this point.

Mr. WORLEY. By the OPA?

Mr. GOODMAN. By the OPA and by the OES.

Mr. WORLEY. Why do you object?

Mr. GOODMAN. I have a section here entitled "Decontrols" which I would like to—

Mr. WORLEY. Can you give us briefly your objections?

Mr. GOODMAN. Yes. I objected to the decontrol program that was announced by the Economic Stabilizer, Mr. Davis, as far back as last July, because of the failure to set adequate determinants as to when particular controls should be removed.

I have a whole series of cases here that I would like to discuss with you.

Mr. WORLEY. What is generally common to all of them?

Mr. GOODMAN. That as soon as the impression got abroad that controls be removed if enough pressure were applied, there were a whole series of pressure campaigns put on OPA and the OES, some Members of Congress, that resulted in the removal of controls, or

removal of governmental policy, and the end result was an immediate jump in prices.

I would like to give you one. There is a great deal of talk here about strikes and labor's unreasonable demands. I would like to give you one that is an example, to me, of the most stupid application of a decontrol policy that has resulted to business, loss to workers, and loss to the consumer.

It is one that you all may have heard about, but I have the details here if I can glance through quickly and find it. It relates to a simple thing—coconuts.

Mr. GIFFORD. Patman threw them all over the room the other day.

Mr. GOODMAN. I am affiliated with the union that works in the candy-making industry.

Mr. WORLEY. Will you give us the illustration?

Mr. GOODMAN. The newspapers told the story of what happened to the price of coconut when price ceilings were removed. This item sold before the war, according to newspaper reports, for \$15 per thousand pounds; during the war the ceiling was maintained at \$65 per thousand pounds. Recently the ceiling was removed and the price shot to well over \$200 per thousand pounds. And I go on to say—and I think this is a mild understatement: Candy manufacturers have found themselves unable to buy an item which is very important to their business.

Mr. WORLEY. Do you suppose those ceilings were removed as a result of pressure?

Mr. GOODMAN. I don't happen to know the circumstances in that particular case.

Mr. WORLEY. But you disagree with the wisdom of that action?

Mr. GOODMAN. That is right.

Mr. WORLEY. Is that an isolated case?

Mr. GOODMAN. That is one of many.

Mr. GEORGE. Have you examined all the cases in which OPA has lifted the ceilings?

Mr. GOODMAN. All of them? No, sir.

Mr. GEORGE. Any large number?

Mr. GOODMAN. Yes, sir.

Mr. GEORGE. What caused you to examine them, the ones that were suspects, or at random?

Mr. GOODMAN. We took the position when the decontrol policy was being considered that there was a lack of adequate standards of determining which item should be decontrolled, and as a result we followed many of them that came to our attention for one reason or another, and went into the details of a few—it is impossible to go into too many activities, but I assume you know the case of citrus fruits.

Mr. GEORGE. The point I was trying to bring out was the one that came to your attention would be likely to be the one that gave trouble. I was just curious about the over-all record.

Mr. GOODMAN. Not necessarily. I can't say as an individual or for our committee of six people that we have been able to follow all of the things that have gone on in OPA. It is impossible to more than pick up a few highlights or things that you think illustrate a principle.

Mr. GEORGE. My point is simply that it seems quite important that

there ought to be an over-all record of what happened to prices after controls were eliminated on different situations and different kinds of products.

MR. GOODMAN. I have a discussion of a few of them here. If you care, I would be glad to give you additional items.

For example, there is the story of Alaskan seal furs. On August 15, 1945, OPA removed the ceiling. The price had been held at a ceiling of approximately \$45 per skin. When the ceiling was removed, prices shot up. Recently, sales were being made at \$110 per skin.

MR. WORLEY. Those are luxury items.

MR. GOODMAN. I would be glad to discuss some necessities. We are going into the Christmas season and citrus fruits are practically a necessity during Christmas, the Christmas season—oranges and grapefruit.

MR. WORLEY. Also turkeys and chickens, and another committee, for your information, has had Mr. Bowles before it—the Committee on Agriculture—in a discussion regarding ceilings on all sorts of fowl. He says he will not do it until production reaches demand, so prices won't pyramid.

Has that been your experience with OPA?

MR. GOODMAN. He has done it where Members of Congress or other groups have pressured him into removing controls.

MR. WORLEY. I don't know how much more pressure could be applied to him than was applied on that occasion.

MR. GOODMAN. I am not interested in learning the techniques of how to get him to decontrol things, particularly items that shouldn't be. (Discussion was had outside the record.)

MR. GIFFORD. Do you find any that you didn't criticize?

MR. GOODMAN. I like very much his accepting the industry recommendations in reducing the price of nylon stockings, and praised him very highly.

MR. GIFFORD. In general, you want him to keep controls?

MR. GOODMAN. Only those controls that are necessary.

MR. GIFFORD. But they are all necessary to your mind, practically?

MR. GOODMAN. Price control of the necessities of life, at the moment, I think are necessary because there is a shortage of every single item—rent, housing, clothing and foods.

MR. GIFFORD. Coconuts and citrus fruits?

MR. GOODMAN. Yes, coconuts and citrus fruits and—if I may say—shoes, Mr. Gifford.

MR. GIFFORD. What should not be controlled?

MR. GOODMAN. We have a surplus at the moment, I think, of good will and a surplus of good intentions. In my opinion, there is not an adequate amount of control of greed that exists.

MR. GIFFORD. Haven't I heard that hell itself was paved with good intentions?

MR. WORLEY. Pardon me for interrupting. That buzzer signifies a quorum call, and all Members are wanted on the floor of the House.

I am sorry that our hearing has been interrupted but we hope to continue at a later date. Thank you very much, Mr. Goodman, for your kindness in appearing before the committee.

(Discussion off the record.)

MR. WORLEY. The committee is adjourned.

(Whereupon, at 11:15 a. m., the committee adjourned.)

POSTWAR ECONOMIC POLICY AND PLANNING

THURSDAY, JANUARY 31, 1946

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POSTWAR ECONOMIC POLICY
AND PLANNING,
Washington, D. C.

The special committee met, pursuant to call, at 10:30 a. m. in room 1304, New House Office Building, Hon. Orville Zimmerman presiding.

Present: Representatives Zimmerman (presiding), Murdock, Worley, Gifford, Welch, Wolverton, Hope, Wolcott, and Simpson.

Mr. ZIMMERMAN. The committee will be in order.

Our chairman, Mr. Colmer, advised me he would be unavoidably detained today but he is very anxious that the witnesses scheduled to testify today have the opportunity of appearing and presenting information which they would like to leave with this committee for their attention.

He has asked me to act as chairman this morning. Mr. Cooper, the ranking member on the committee, is tied up also with the Ways and Means Committee and he cannot be here.

Mr. GIFFORD. He wasn't there when I left. I was in the Ways and Means Committee and he wasn't there. Probably he is on Pearl Harbor.

Mr. ZIMMERMAN. Maybe it is Pearl Harbor.

Mr. Warne, will you come forward and let us have your statement?

STATEMENT OF COLSTON E. WARNE, PRESIDENT OF CONSUMERS
UNION OF THE UNITED STATES, INC.

Mr. ZIMMERMAN. Mr. Warne, do you have a written statement you would like to present?

Mr. WARNE. I do, indeed.

Mr. ZIMMERMAN. Would you like to make a statement before the questioning?

Mr. WARNE. Indeed.

Mr. ZIMMERMAN. Very well. You may proceed and we will let you make your statement and then anyone who desires to ask questions may do so.

Mr. WARNE. This statement is submitted on behalf of 14 organizations and is signed by the executives of those groups.

Perhaps at the outset, in order to establish the organizations represented, I might read the roster.

Mr. ZIMMERMAN. I think that might be very helpful.

Mr. WARNE (reading) :

American Association of University Women, Kathryn McHale, general director.

American Home Economics Association, Lelia Massey, executive secretary.

Consumers Union of the United States, Inc., for which I signed as president.

League of Women Shoppers, Inc., Katherine Armatage, chairman.

National Consumers League, Elizabeth S. Magee, general secretary.

National Council of Catholic Women, Ruth Craven, executive secretary.

National Council of Jewish Women, Mrs. Joseph M. Welt, president.

National Council of Negro Women, Mary McLeod Bethune, president.

Non-Partisan Council on Public Affairs of the A. K. A. Sorority, Thomassina Johnson, legislative representative.

National Women's Trade Union League, Elisabeth Christman, secretary-treasurer.

Potomac Cooperative Federation, Helmuth F. Kern, executive secretary.

National Federation of Settlements, Mildred Gutwillig, chairman, consumer interest committee.

National League of Women Voters, Anna Lord Strauss, president.

General Federation of Women's Clubs, Mrs. La Fell Dickinson, president.

These groups present to your committee a statement on the immediate need for extension of price and rent controls.

This joint statement is submitted on behalf of American consumers, who believe that immediate renewal by the Congress of the price and rent-control legislation which expires on June 30 is an essential prerequisite for the Nation's successful transition to higher level postwar employment, production and national income. Our country is faced with the imminent threat of a run-away price and rent inflation, unless Congress serves notice that the line will be held by continuing price control until at least June 30, 1947, and rent control until at least June 30, 1948.

President Truman has warned the Congress and the Nation that pent-up inflationary pressures have reached the critical explosion point. Wherever there are no controls, major inflationary price advances have taken place. The prices of uncontrolled urban real estate have risen more than 50 percent since the beginning of the war. In the absence of adequate controls on speculation industrial stock prices have more than doubled since the spring of 1942.

Five months after VJ-day, the overriding economic fact is that for a considerable period to come, we face a sellers' market in consumer durable goods, clothing, and housing. Cumulative shortages will not be overcome even at high levels of production for a couple of years in consumer durables, and in housing the shortage may continue for a decade. In the face of such major and acute shortages, record-breaking demand will precipitate an inflationary explosion unless prices are held down until the supply of scarce goods comes into approximate balance with postwar demand.

The Nation's experience after World War I underscores the pressing need for renewing and maintaining price and rent controls. Although the pent-up demand at that time was much less than today, an inflationary price advance was generated after World War I when the Government dropped all controls after the armistice. The cost of living soared and reached a peak 108 percent above the prewar level. The purchasing power of the dollar dropped to 40 cents, as 43 percent of the general price inflation and 91 percent of the rise in rents came after World War I was over.

The American people have not forgotten the World War I inflation which ended in an economic crash and an acute depression. By

1920 industrial production fell 40 percent in one year, farm prices dropped 50 percent and the prices of manufactured goods declined 45 percent. The American people are determined that they will not again suffer the disastrous consequences of a postwar inflationary boom-and-bust cycle. That is why they support the President's appeal for the continuation of price and rent controls to keep the lid on speculative price advances.

We cannot afford to forget that the inflationary threat today is far more dangerous than it was back in 1919. The pent-up demand for civilian goods has been conservatively but incompletely estimated at \$50,000,000,000, chiefly for consumer durables and housing. Everywhere on the price front, ceilings are at the cracking point. Without price and rent controls, the fuse would be set for the worst inflationary explosion in our history.

More than that, unless price and rent controls are renewed as soon as possible the country will be threatened with another sellers' strike that will cripple reconversion.

Last fall—and I am sure some members of the committee will appreciate this—some manufacturers and businessmen held back goods from the market because they wanted to make windfall profits this year after the repeal of the excess-profits tax. Unless Congress immediately makes clear that price and rent controls will be renewed, there is grave danger that many manufacturers, buildings and other businessmen will curb production and construction and hold back goods in anticipation of higher prices after the end of price control.

Your committee which has been studying postwar economic policy should consider the threat to the Nation, if a sellers' strike should develop in the next few months just when the largest possible expansion of civilian production is needed. This potential danger illustrates how the transition to the peacetime economy with high levels of employment and production necessarily must be safeguarded by price and rent controls.

In fact, reconversion was hampered and inflationary pressures were increased when essential controls were dropped by the Government after VJ-day. These mistakes led to hoarding of scarce materials, to the sellers' strike, and to sharp intensification of the housing shortage. The fact is that it was not the retention of wartime controls but their premature abolition that slowed down reconversion. If controls had not been removed prematurely, there would have been no basis for the sellers' strike.

The renewal and extension of price and rent controls will safeguard, not harm reconversion. If businessmen and consumers know that the lid will be kept down on inflationary price increases, they can plan their operations and expenditures for 1946 and 1947. The businessman will know that it will pay him to get capacity operations going as quickly as possible in a sellers' market where he can sell everything he can turn out. And the consumer will purchase what he needs and not scramble for everything in sight because the value of the dollar is going down from week to week.

It is generally agreed that the most effective defense against inflation is capacity production. But maximum output will not be attained if it will be more profitable for businessmen to hoard stocks of materials and products, because they will receive higher prices and make bigger profits further along the inflationary spiral. Business

and industry are guaranteed markets for all they can produce in the next several years—if prices do not get out of control. With capacity operations, they will make the greatest profits they have ever earned. And high-level production will gradually ease and dissipate the inflationary pressures that were generated during the war. At some safe point in this process the inflationary threat will have been defeated and price controls can be abolished.

The issue, therefore, is not the abolition of price and rent controls. No one proposes that they be continued indefinitely. The real issue is to avoid inflation, and that cannot be done without the continuation of price and rent controls. What has happened since V-J-day shows that we would be courting economic disaster if these controls were abolished before we were certain that the inflation threat has been definitely overcome. It will be incomparably better for the economic welfare of the Nation if the controls are removed 6 months after they are no longer needed than 6 months too soon, when there may still be danger that inflation will get out of hand.

This conclusion becomes inescapable when we examine the situation in food where the supply picture is better than in any other group of commodities or goods. Prices are pressing very hard against ceilings even in those foods where supplies are relatively ample. For example, last November OPA lifted the ceilings on fresh citrus fruits in response to appeals from the industry. Within a week or so, retail prices doubled in many communities. Here was a laboratory test proving that in the absence of a ceiling, the price of a commodity in relatively good supply will have an inflationary rise because of the abnormal conditions that now prevail in the economy.

What was true of citrus fruits would also apply to consumer durables, to clothing, to housing, to most foods. Current price ceilings are actually a floor below which prices do not fall, no matter what the available supply. Consequently, the elimination of ceilings would pave the way for major price increases of 25 percent, 50 percent, and 100 percent in a year. What we would have for all practical purposes would be the price conditions of a national black market, with constant upbidding of prices and the whole speculative, inflationary process legitimized by the ending of price and rent controls.

In the face of this threat to our future, with the prospect of having the peace undermined by a catastrophic depression in 1 or 2 years, theoretical arguments against price and rent controls cannot be taken seriously. It is not a question of being for or against price and rent control. The lineup is actually for or against inflation. On the one hand, we have the overwhelming majority of our citizens against inflation and for price and rent controls.

And may I just interpolate that you have represented on the roster of groups signing this statement a very considerable national coverage.

On the other hand, there are a small number of selfish interests willing to gamble with the economic health of the Nation by playing around with what they call a small dose of inflation. But inflation cannot be taken in controlled doses. Once price and rent controls are abolished prematurely, there will be a galloping inflation with disaster as its inevitable end.

Because of their critical importance, it is essential that Congress reject all efforts to emasculate price and rent controls through amend-

ments. Consumers are especially concerned over the drive to cripple or abolish OPA's cost-absorption principle. OPA is applying this policy in line with the President's Executive Order 9599 which directed the Price Administrator "so far as reasonable, practicable, and necessary" to see to it that unavoidable manufacturing price increases do not cause price increases at later levels of distribution.

Without the principle of cost absorption, we would have price control in name only. Substantial price increases would take place in the cost of food, clothing, reconversion goods, and dozens of other cost-of-living items. Even worse, abolition of cost absorption would pyramid price increases throughout the economy, as one increase after the other would be passed along to subsequent economic levels, thus putting the inflationary spiral into motion, whether we continued to have a price control law on the statute books or not.

A cost-plus formula as a substitute for cost absorption would simply mean a formula for legalized inflation. Price control requires holding down prices. When some unavoidable manufacturing increases can be absorbed, they must be absorbed in whole or in part as an integral part of the price-control program. But you cannot have price control unless there is partial or complete absorption of cost increases at some level of economic activity, so that the full impact is not felt by the consumer in the form of ever-higher inflationary retail price increases.

We believe your committee in its deliberations on postwar economic policy should recommend to the House of Representatives that it renew the price and rent-control legislation as soon as possible. This legislation by stabilizing the economy during the transition back to peacetime production will help us construct a solid foundation for postwar prosperity.

We believe that the price-control provisions should be extended until at least June 30, 1947. That will give business and industry about a year and a half in which to take the edge off the current abnormal demand. Along with renewal of the price control provisions, it is essential that the Second War Powers Act be renewed until at least June 30, 1947. This act is the basis for the Government's priority and inventory controls. Without these controls, hoarding of scarce materials will block the channels of distribution, with consequent pressure on the entire price structure.

We believe that the rent-control provisions should be renewed until at least June 30, 1948. Housing is our most critical shortage and the present crisis will not be overcome in the next 2 years. Renewal of rent controls until at least June 30, 1948, will reassure our people that there will be no rent inflation. It will also stimulate housing construction if builders realize that they cannot sit out rent control in the hope that it will be ended in 6 or 12 months.

If rent control is to be effective, we must have ceilings on the prices of new and old housing. We already have a major inflation in real estate prices. Unless it is checked at once by congressional action, spiralling housing prices will exert such pressure on the rest of the economy that the whole reconversion stabilization program will break down.

Finally, we believe that the consumer food subsidy program must be continued until at least June 30, 1947. Instead of declining after

VJ-day, food prices today are at their maximum ceiling levels. If the consumer food subsidy program is not continued, the cost of food to the average family will go up about 10 percent after July 1, thus raising the over-all cost of living by 4 percent. These increases would be only the beginning of a spiral of price rises, and consumers as after World War I would face the prospect of retail food prices skyrocketing to a peak more than 125 percent above the prewar level. With the consumer subsidy program this inflationary danger could be blocked until food demand and price levels were stabilized.

We have presented our views to your committee because we believe that immediate action along the lines we have indicated is a necessary prerequisite for a successful postwar economic policy. No postwar economic program will succeed if it is not based on meeting and curbing the inflationary threat now. Your committee can render a great service to the future welfare of the Nation by requesting the House of Representatives and its appropriate committees to consider the urgent need for immediate extension of price and rent controls, the Second War Powers Act and the consumer food subsidy program, and the enactment of legislation for imposing ceilings on the prices of new and old housing.

Mr. ZIMMERMAN. Mr. Warne, that was a very direct and comprehensive statement on this very comprehensive subject. There is one thing that I want to ask you about. You spoke of absorption of price increases. You feel the present policy of the OPA should be continued? By that do you mean that the retailer, for example, of clothing and food should absorb this increase wherever it is granted along the line? Is that what you mean?

Mr. WARNE. I wouldn't put it in quite such an unqualified way.

Mr. ZIMMERMAN. I just wanted to know. I would like you to explain to this committee what you mean by the absorption plan, the application of this plan.

Mr. WARNE. Let's take, for example, automobiles.

Mr. ZIMMERMAN. All right.

Mr. WARNE. As I understand it, the margin at the retailing level, the local agency level, was something like 25 percent.

Mr. ZIMMERMAN. That is right.

Mr. WARNE. That 25 percent in the prewar period included a great deal of shoe leather, a great deal of energy on the part of salesmen.

Likewise, they had very heavy losses on turn-ins of old cars.

Today I suppose the great problem of any agency is not that of finding prospective customers, but that of holding them in line while they sign up for new cars. Their cost situation is quite different from their cost situation in the prewar period.

And I think the same generalization should apply to the bulk of retail lines where the inventory turn-over is so rapid as compared to prewar and the problem of extensive salesmanship no longer exists.

Now, coming to cost absorption. If due to high cost at earlier levels the car comes through to the retailer at a little higher figure than formerly, I see nothing sacred in the maintenance of the traditional prewar 25 percent retail margin, let us say, in the cost of motor cars. I think there is enough leeway there so that that might very well be absorbed.

Now, in some cases the absorption cannot be complete, but my understanding of Mr. Truman's position in Executive Order 9588 and that of Chester Bowles is that the Price Control Act seeks to give general equity on prices and that equity is interpreted as not interfering with the granting of a reasonable level of profits to a given industry or trade.

Mr. ZIMMERMAN. Unless there is due regard for fair equities and an honest effort made to adjust these margins on an equitable basis, aren't we going to have a lot of injustices and serious consequences?

Take the merchant in our country towns. His rent has gone up, his help has gone up. You don't mean he is to sit there and absorb the increased cost of goods and at the same time pay the increased cost of operating expenses, do you? Where will that fellow land?

Mr. WARNE. I think the test should be whether the profit position in a retail field is impaired as compared to prewar standards. If it is not, the cost absorption should go forward. My understanding is that retailing has been and remains today in a particularly good position, that the great volume of sales has caused the lowering of per unit overhead to the point where we really don't need to shed too many tears for the typical retailer.

Mr. ZIMMERMAN. If you got some of the letters I get from some of my constituents, you might get a little different picture. They can't afford to exchange dollars and carry on their business. That isn't what they want.

Mr. WARNE. When you look forward to the great flow of commodities which were choked off during that war period, that will flow through these retail channels in coming months, the prevalent aggregate of net profits, I think, will be at a very high level.

Mr. ZIMMERMAN. I had a letter only yesterday from a very enterprising merchant down in my section of Missouri saying, "I can't buy an overall for my farmers. There is not one to be bought anywhere. They come in and ask for work clothes; they can't get them, they can't buy a work shirt, they can't buy a cotton glove, and during the rainy and snow season we couldn't buy a rubber boot."

These commodities that this merchant sells to make a profit are not available. What is this fellow going to do if he has to absorb all the way along and his source of income is continually diminishing?

It looks to me like it is a serious problem with some of these boys.

Mr. WARNE. With reference to the difficult clothing problem of the hour, I might inject this: First, that there is evidence of a sellers' strike in that field that is choking the flow of goods to the consumers.

Mr. ZIMMERMAN. About the sellers' strike, you referred to that a while ago. Do you mean by the manufacturer or by the wholesaler or by whom?

Mr. WARNE. Typically it is either on the manufacturing or wholesaling level—an attempt to hold back supplies feeling a better price might later be secured.

Mr. ZIMMERMAN. What facts have you to show that strike is going on, or is that a general accusation?

We hear these things charged, but is there any factual foundation for it?

Mr. WARNE. I think our information came from the trade papers and likewise—

Mr. ZIMMERMAN. You don't base your information on newspapers, do you?

Mr. WARNE. No; but I think the trade papers give certain clear indications. Likewise, Mr. Bowles has fairly recently issued an article in Collier's called Crisis in Clothing, in which he alludes to the strenuous fight of the clothing groups to break current ceilings. They are using a series of weapons including the hoarding of supplies. This is temporarily, I think, holding up the whole flow of clothing through to the retailer.

So, to go back to your principal point, your small retailer may temporarily find that his shelves are pretty badly depleted, but the answer to that is not to take the lid off and say, "Let's have high clothing prices without ceilings—\$10 shirts, \$20 shirts." The answer is a tighter control on the converter level, and a clear statement on the part of Congress that price controls are going to continue. Then you will get your flow of goods through.

Might I just inject this, Mr. Chairman? We have here two representatives of the organizations backing this statement. Would it be possible for me to be fortified by their presence on the stand so that any questions could be directed to them as well as to me?

Mr. ZIMMERMAN. Maybe we could hear them a little bit later.

Mr. WARNE. As you wish, sir.

Mr. ZIMMERMAN. Have you any questions, Mr. Gifford?

Mr. GIFFORD. I have a lot of them but I won't take the time. I want to congratulate you, Mr. Warne. You seem to be surrounded by women.

Mr. WARNE. I am.

Mr. GIFFORD. I have a close friend named Warne, the closest friend I have. I want to take a word of comfort to him from another Warne.

He owns a large building. He has it rented and there were certain repairs to be made and they said it would cost \$5,000. He has already spent \$15,000 and will spend \$3,000 more. He already rented it based on the \$5,000 estimate.

He visited the premises and found the bricklayers had gone up to \$3 an hour, \$24 a day. They are limited to 500 bricks a day. One was the foreman, and as he reported to me, he couldn't do much more than smoke cigarettes.

That is a serious situation for him.

You would like to have a ceiling on those rents, an arbitrary amount. I believe in ceilings but I think they should be of such a nature that they would increase productivity.

Shall I tell him you approve of ceilings?

Mr. WARNE. As I understand, Mr. Bowles has allowed ceilings on new housing and housing improvements to be about 20 percent above the level prevalent on comparable existing old housing, so that there is in there a genuine incentive for people to build for rent.

Mr. GIFFORD. I heard about the 20-percent advance. Twenty percent advance on what previous month?

Mr. WARNE. Compared with the level of old housing of comparable quality.

Mr. GIFFORD. Who determines that?

Mr. WARNE. That I suppose will be done by the district rent offices of OPA.

Mr. GIFFORD. Which can't do anything unless they come back here.

Mr. WARNE. I think it will be done—that is a decentralized proposition.

Mr. GIFFORD. Does that apply in defense areas as well as other areas?

Mr. WARNE. That applies as do all the rent controls now wherever employed.

Mr. GIFFORD. I want control of rents if they are reasonable and right. I want a ceiling but I don't want to hinder production one bit. I was on the committee that set up OPA. And I recall the promises made and the instructions given by the committee of which I was a member. And I want to see those promises lived up to.

Now, you are trying to tell us that vast amounts of goods are held and they won't sell because they want to take advantage of the higher price. There is some of that, undoubtedly, of course.

Mr. WARNE. With reference to that production point of yours, here is perhaps the most graphic illustration I could use. After the last war we had no price controls.

Mr. GIFFORD. I know you say that.

Mr. WARNE. And such commodities as copper were sold speculatively, one person selling to another and he selling to another, and so on. The tendency was not for the finished article to come through to the consumer, but for the raw materials to be batted around from one person to another without price control, production actually suffered.

Mr. GIFFORD. We all remember that. But your terrible time came in 1926 and 1929—10 years after the war.

Mr. WARNE. Your first crisis came in the summer of 1920 and the great drop in prices in that first down-swing was 1920 and 1921.

Mr. GIFFORD. That is 3 years after the war. Remember?

Mr. WARNE. Two to 2½ years.

Mr. GIFFORD. I can't remember such a terrible time as that in 1920 and 1921. But I remember the terrible times of 1929.

Mr. WARNE. The collapse, for example, in 1920 was 40 percent in 1 year in industrial production.

Mr. GIFFORD. My memory isn't too good, but there are two or three other things I want to say.

Our mail, as the chairman said, is largely from producers planning to produce and they can't produce and absorb these extra expenses. Do you have any recommendation as to labor costs?

Mr. WARNE. This group addressed itself to the issue of price and rent controls in this statement. We did not reach out into other equally pressing problems of labor, public finance, and debt. We are only discussing this more narrow issue, although I am sure all the groups represented realize the importance of the other problems.

Mr. GIFFORD. One direct question. Has the OPA caused scarcities by their actions? In naming prices under which they will not produce, have they already caused scarcities?

Mr. WARNE. I have not been aware that the OPA has been niggardly in setting prices. On the contrary, I should think that from the experience of the past 2 or 3 years, if anything the OPA has dealt exceedingly generously with agriculture and business judging from the prevalent levels of farm prices and likewise the prevalent levels of profit.

Mr. GIFFORD. Some of the fruit people don't say that, when they took the prices off.

But the claim in the letters I receive from people who manufacture goods is that the OPA has created a great many scarcities and that scarcities bring about inflation. But they continue to create scarcities.

Do these girls enjoy all these nylon stockings being sent to Brazil and getting a high price and the girls here can't get them? They go where the market is. What should be done about that? Is there any recommendation here?

Mr. WARNE. I have a statement from the OPA that suggests that export prices today, as well as import prices, are under control.

I can't, of course, indicate the precise destination of nylons, but I would want to check that as a fact before I could be sure that is the case. We do have export price control.

Mr. GIFFORD. Which organization here would you check it with?

Mr. WARNE. I should presume that you would have somewhere in the State Department or the Department of Commerce groups that are still in charge of export controls and export statistics.

Mr. GIFFORD. Wouldn't that arouse your women members to real action to prevent it? Have you no recommendation to make to us?

Mr. WARNE. I should be happy, with your permission, to have Mrs. Somers of the League of Women Shoppers address herself to that. We would like to hear her testimony on the subject of nylons.

Mr. GIFFORD. I bet she would be mad about it.

I would like to ask a lot of questions, but I won't take the time. But I remember the promises made and I want to see them fulfilled.

Even in your housing business, the lumbermen said ceilings would prevent action. They won't build. Of course they won't build unless they see a way to make a little profit.

Mr. WARNE. Isn't it clear today that the bottleneck in building is not the absence of a desire to build, but it lies in the fact that we can't turn out sufficient building materials?

Mr. GIFFORD. Your namesake Warne that I am going to report to tonight had all the materials and all the labor. But as far as he was concerned, he had no control.

But on other items, these girls here—they love to pay subsidies in the way of taxes in order to keep the price of nylons down.

Mr. WARNE. The subsidy issue is not a question of an isolated cent or two. It is a question of approximately a 10-percent item in the family food budget when you come to milk and similar items. If that percentage is added to the consumer price after the 1st of July, it will start the spiral upward.

Mr. GIFFORD. You favor the Government paying subsidies rather than charging a cent more or 2 cents more for milk?

Mr. WARNE. Yes.

Mr. GIFFORD. And hold it there. But shouldn't you prefer that the people who drink the milk should pay the 3 cents? Why subsidize and let other people pay?

Mr. WARNE. The explanation is this. We are seeking to "hold the line" at a point so as not to increase the cost of living and so that this increased cost of living will not trip off rising costs elsewhere, bringing us to an even higher level of cost and price.

The injection of the subsidy was necessary all through most of the war. I think continuation is justified by the same arguments that caused its original adoption by the Congress—

Mr. GIFFORD. I understand. They prefer to pay a subsidy rather than to pay for the milk, and the farmers hate the word "subsidy." They would rather have the price in the milk. I am well acquainted with the farmer.

Mr. WARNE. I am not sure the farmers do want the abolition of the subsidy.

Mr. GIFFORD. That has been under the control of the Government inspectors, and so forth. His books have to be opened. I hate to think that we are being asked to continue this subsidy business.

Mr. WELCH. Mr. Warne, you referred to the housing shortage in this country.

Mr. WARNE. Yes.

Mr. WELCH. How can we meet the demand for houses and at the same time continue shipping our lumber, both finished and unfinished, out of the country where it is sold at a greater profit?

Mr. WARNE. My understanding is again that the OPA price regulations do apply to exports and that an export price is not allowed to get out of line with the domestic price on lumber or any other article.

I have heard that allegation with reference to lumber and a good many other articles, but I never have seen verification on that point and I would suggest again that I think the facts of the situation should be established.

Mr. ZIMMERMAN. Mr. Wolverton, have you any questions?

Mr. WOLVERTON. Not at this time.

Mr. ZIMMERMAN. Mr. Murdock?

Mr. MURDOCK. Mr. Chairman, I want to follow in the wake of my good friend from Massachusetts and congratulate the witness on the splendid backing he has and also inquire how he gets that splendid backing, and I want to say also very seriously that I think the witness has done well to explain that he is not trying to cover the whole of this complicated field. I notice that he hedged a bit when questions about the cost of labor and foreign trade were brought in.

But I do want to say that these are component parts of a very complex economic matter and it, of course, is the duty of this committee to take into consideration all those complex parts so that you and the good ladies with you and all these organizations will direct your attention to one thing, and that is "Hold the line against inflation."

I want to say that I am absolutely with you in that respect. However, I am thinking of some other phases that have been hinted at here. I think I heard the statement made that Chester Bowles was the most popular man in America, but from what I have heard on the floor of the House and seen in the Congressional Record he is the most abused man and the most accused man in public life.

I am back of Chester Bowles 100 percent but I have nagged him, I have written him, I have phoned him, I have gone down to see him until I am almost ashamed to look Chester Bowles in the face.

Now, why have I done that? Because of some of the very things that have been mentioned here.

For instance, the price of milk. I would like to refer to that for a minute. Mention was made, also, about the price of citrus. I have a relative who owns a citrus grove and that relative is very much interested in the price of citrus. Now, I understand it is an absolute fact that one kind of citrus was selling at \$4 a box and when the ceiling was taken off the price rose to \$16 a box. That is a "laboratory fact." They had to reimpose ceiling prices and that was done. My relative, who is a farmer, did not get the increased price, but I could not have justified it if he had.

Now, I also have a friend who is a dairyman. I got the most scorching letter that I have ever seen put on paper without burning the paper, from a dairyman in my State a few days ago about the very thing the Congressman from Massachusetts was mentioning.

Yes, I do feel that farmers object to the word "subsidy." They don't like the word "subsidy." I don't blame them much. And yet, suppose we had not had subsidies. I think every dairy in the country would have gone out of business.

But what are we going to have then? What would the dairyman have? They say "A free play of the law of supply and demand." They say, of course, "The right price in the market place." Without control and under free play of supply and demand, I don't believe that that price would be merely 1 or 2 cents more per quart than it is now. I believe that price might eventually double or treble the present price if all controls are removed, and I don't want to see that happen. Some would pay \$1 per quart for milk for babies.

Mr. GIFFORD. I don't want to see that either.

Mr. MURDOCK. Why have I nagged Chester Bowles so much? Well, sometimes about rents and sometimes to be a little more liberal in regard to subsidies here if we must have subsidies, and sometimes not to be too hasty about ceilings. I have found him to be reasonable.

I am confessing right here in public, going down in the public records, that I was one from the cotton States who interviewed Chester Bowles a few days ago when it was suggested a ceiling price be put on cotton. One fellow present used his shirt as an illustration. It was a better shirt than mine. He said, "This shirt cost me \$5." It was a prewar shirt, I think, he couldn't get the shirt at all now. He said, "It cost 15 cents or more merely to have it laundered once, and yet the raw cotton that is in this shirt brought the farmer that produced it less than 7 cents."

I would like the ladies to think of this. That is why I am putting it in the record. The cotton in the shirt brought the farmer who produced it, toiled all summer, took the hazards of climate and the season, and failure of crops, and the hazards of the boll weevil and the pink boll worm—the cotton in that shirt brought the farmer 7 cents.

It cost him twice that amount to have it laundered once. Then when he goes to the store, if he can get it at all, it costs him \$5.

Now, representing cotton farmers, I don't want cotton farmers to have to be stopped at this level or, if they are, I want some cost absorption some place along the line so that if the cotton should double in price as far as the farmer is concerned, the shirt won't cost \$10 to the consumer.

Mr. Chairman, I am not reading these folks a curtain lecture but merely explaining because I want them to see all sides of this thing.

Mr. ZIMMERMAN. Pardon me. Why not give the facts about how much the farmer gets for the flour that goes into a loaf of bread?

Mr. MURDOCK. That is a good illustration.

Mr. ZIMMERMAN. A lot of people believe the farmers in the country are the ones who are responsible for the high cost of food and living.

Mr. GIFFORD. A farmer gets 3 cents for his watermelon and I pay 90 cents. It has been so for years.

Mr. ZIMMERMAN. I think there has been a lot of misunderstanding about the relation of farm prices to the cost of living and a lot of our consuming public need a little education along that line.

Mr. MURDOCK. May I give this little illustration concerning the dairyman? I have a dairyman friend, a man of considerable means—that is, he used to be. When I was home last time I phoned him and said, "When can I see you?" I wanted to see him on another matter. He said, "Not before 10 o'clock tonight."

I went to meet that man at 10 o'clock and I found him just coming in from his field from his farm work and I asked him about his dairy and he said, "I have some complaint about this subsidy business."

"Isn't the subsidy on milk enough?" I asked, and he said, "No, it is not enough and it is not paid often enough. We get our pay checks quarterly instead of every month."

He said, "I could get a lot more for my milk if there was no ceiling on it."

I could see right off that the man could not buy milking machines, could not get labor, and he was paying \$27 a ton for alfalfa hay. I could see right off that the small amount of subsidy he was getting was not covering that difference in cost and yet, what alternative?

If you take off the subsidy he will send his cows to the butcher and go out of business. Some have already done that.

Mr. ZIMMERMAN. Or let the price go up.

Mr. MURDOCK. Or let the price go up. How much would it go up? If you had no controls, I believe the American people would pay 50, 60, or 75 cents, possibly a dollar, a quart for milk for their babies. That is what we want to avoid.

I beg your pardon, Mr. Chairman, for taking all this time, but I wanted to read that into the record.

Mr. ZIMMERMAN. I am glad you took the opportunity to do so.

Have you other witnesses, Mr. Warne?

Mr. WARNE. Miss Edith Hyslop of the American Association of University Women and Mrs. Laura Somers of the League of Women Shoppers.

STATEMENT OF MRS. LAURA SOMERS, REPRESENTING THE LEAGUE OF WOMEN SHOPPERS

Mrs. SOMERS. I have no prepared statement. I had not expected to testify when I came here.

Mr. ZIMMERMAN. Tell me something about your organization and who you are.

Mrs. SOMERS. I will be glad to. We are always glad to give publicity to it.

The League of Women Shoppers is a national organization devoted to the protection and improvement of the American standard of living. Our organization is made up largely of housewives, middle-class housewives like myself.

We are not economic experts for the most part, but we do feel that in a democracy every citizen, whether housewife, professional woman, or whatever her capacity, should try to keep herself informed and make her opinions felt insofar as she can.

I want to talk not only for our own members but for the thousands of women we meet every day in the stores, wheeling baby carriages, in the busses, and so on.

Most of these women probably couldn't tell you how price control operates. I am sure they could not tell you the technicalities of the administrative procedures or of the legislation. But they do understand clearly the relationship between price control and their household budgets.

To every woman who has to make her income go for food, housing, and clothing for herself and her family, Mr. Bowles is somebody who is protecting her and her family from a terrible fate, who is trying to do the thing most important to her at the moment. And this, I believe, is why Mr. Bowles is probably one of the most popular men in America today. She knows of her own experience or from what she has heard, that prices soared after the last war. She has seen what happened in this war before price controls were established, and knows what happened recently when certain price controls were removed.

She does not need to know how the economic forces operate in order to achieve these results. Her husband is just back from the war and it will be some time before he finds a job; or he is on a pension; or he has a fixed Government salary; or he is making not too large a salary in industry. She knows that if prices rise this income will not permit a decent standard for herself and her family. His salary will not spread any thinner than it has already been spread.

A lot of these women have said to me, many of them with children and husbands who have been in the service—"what am I going to do if my rent or food bill goes up? I don't have a penny over and above what I have to spend for my living expenses each week." I don't know the answer.

Certain questions have been raised while Mr. Warne was on the stand and I would like to go in to a few of them, if I may. First, I want to say I really sympathize with each and every one of you Congressmen. I realize you are probably deluged with complaints from individual constituents, and some of these are undoubtedly justifiable complaints.

The price-control machinery may not be perfect. I don't know of any administrative agency that has done a 100 percent job. But we feel that is sufficient flexibility within the legislation as it has been passed by Congress, and with the administrative procedures of OPA to permit of rectification for most of these grievances.

Without price control a number of businessmen and farmers might blissfully prosper for a limited period, but at the end of the spree you will have 140,000,000 people who will have no redress, no appeal from the misery that would engulf them.

We cannot toy with the idea of weakening the price-control structure. And there are many other ways of making it ineffectual besides abolishing it. We are totally against any procedures that would weaken it.

We feel prices have already gone too high. We regret that they have been permitted to go as high as they have.

Now, I would like to say this about nylons. I know that nylons in this country could be sold at almost any price so great is the desire of most women for that product.

I regret to say that although our American women are a wonderful lot they either have not been schooled sufficiently in economics or they have not been sufficiently schooled in the true morality of thinking about your neighbor. They would go out and pay any price for it, no matter what happens to the general economy. They will buy nylons as fast as they can afford to buy them.

I read in the paper that nylons in Argentina are selling for \$15 a pair. I don't know anything about the export controls. I don't know whether nylons are going from this country there or whether they are going into legitimate or illegitimate channels.

I know I received one pair of nylons at Christmas, the first I had had for years, and they had a price tag "OPA ceiling \$1.20." That is what was paid for that pair of nylons. So long as price controls mean that I can get one pair at \$1.20, and that my neighbor can probably do the same, and that in Argentina the women are paying \$15 and probably more in the black market, I am grateful indeed for price control. That is what price control means to me.

When they took the price controls off citrus fruits I saw Temple oranges which had been selling for 10 cents a pound, selling for 27 cents. I didn't buy them. As soon as the OPA prices were reinstated, the Temple oranges were again 10 cents a pound.

I know price control was not intended as a social-service measure to help individuals. It has a much larger purpose. But I simply wanted to take this opportunity to tell you gentlemen what price control means to the average woman and how keenly and how deeply desirous we are of having Congress continue to protect us from the ravages of high prices which in the language of the economist would mean inflation.

So far as rent controls goes, we know how supply and demand would have operated in Washington if we had not had our controls. I think it is a great pity that controls were not placed on the resale of houses because many people have written us saying, "We rented the house at \$60 a month and now the thing has been sold. The owner is taking possession. We can't rent and we have to buy a place in which to live." They bought houses which were far above their income levels. They had to buy houses at fantastic prices in order to have a place to live.

I think it is a great pity price ceilings were not put on commercial rents a long time ago also. I come from a long line of small businessmen. I feel sorry for the small businessman who is forced to pay exorbitant rents. The temptation to exceed ceiling prices in order to make up the difference must be strong indeed.

Mr. ZIMMERMAN. I know of some very glaring examples of how small businessmen have been imposed upon and I will go a little fur-

ther and say robbed by greedy landlords. A typical example is in my own hotel, a drug store. They are now forced to pay a terrifically high rate to continue that little drug store as compared to what they paid before the war.

Mr. GIFFORD. Do you call me a greedy landlord? I rented a house and they told me I could not evict the tenants for 6 months. But the tenants got out of there on their own accord in December—they were transferred—and I sold it quick. I sold it for less than it cost me. Many landlords are in the same position that I am. You can't evict the tenants in less than 6 months. A soldier boy wanted to buy it and he couldn't put the tenants out.

I want OPA also, but I want a reasonable one and don't want the scarcities.

Mrs. SOMERS. I think that our production record during the war years with all the OPA controls has been a remarkably high one.

Mr. GIFFORD. I never argue with you women.

Mrs. SOMERS. Our organization has felt it is not the OPA prices that are creating scarcities at all, and that higher prices will not necessarily make for greater production. The lumber industry, I believe, has had five price increases, probably well justified and needed price increases, but I understand their production generally has fallen off.

I am just a housewife speaking for housewives, but these are the facts as I understand them.

As far as cost absorption is concerned, if anybody can work out a means whereby prices and the cost of living can be kept down while manufacturers and the middlemen and the retailers receive all the increases they want, I would be delighted to consider that program. I think it would be very sad, however, for retailers alone to have to absorb all price increases. That, of course, is not how "cost absorption" works.

As I understand it, the price increases are spread around among the various levels throughout the particular industries.

And I agree with Mr. Warne that selling costs and other expenses have been pared down considerably, thus further enabling the businessmen all up and down the line to absorb its price increases.

I have heard that the farmer has said he does not like the "subsidy"; that he is sensitive about it. It is too bad we can't think of a more attractive label. But a subsidy is not something new in our history. Many industries have long been subsidized and will continue to be subsidized for a long time to come. I am thinking particularly of shipping and air transportation.

If I could see any way that a farmer could get what he wants for his milk and still the price of milk could be kept down so the family that wanted the milk could buy it—

Mr. ZIMMERMAN. Do you believe in the right to strike?

Mrs. SOMERS. The right to strike is recognized by our Government. No question about that.

Mr. ZIMMERMAN. What would you say about the farmers' right to strike about the milk situation?

Mrs. SOMERS. I should think there would be no instrument or any way by which they could be stopped. I would not attempt to dictate to them. It is their right to make up their minds.

Mr. ZIMMERMAN. When the people working in the automobile or steel industry want more money, they just strike.

Mrs. SOMERS. Yes.

Mr. ZIMMERMAN. If the farmers decide to strike on the milk proposition, you would say that would be all right?

Mrs. SOMERS. I say it is up to the farmer to use whatever weapons he has if he feels the situation demands it.

Mr. ZIMMERMAN. Do you think they would have the right to strike and let the babies starve?

Mrs. SOMERS. I say there is nothing in the law to prevent them and if they decide to strike and the situation is sufficiently urgent they may do whatever they please.

Mr. ZIMMERMAN. I am asking about their moral right.

Mrs. SOMERS. Moral rights are rather a delicate subject.

Mr. ZIMMERMAN. Haven't you some babies?

Mrs. SOMERS. Yes, indeed; a child 7½ years old.

Mr. ZIMMERMAN. What would you think about it if the farmer would strike and you couldn't get milk for your baby?

Mrs. SOMERS. I say the farmers have a right to strike. As an American who believes in adhering to the Constitution and all the laws of the land, I say they have a right to do whatever they want within that framework.

But I say that raising the price of milk rather than continuing the subsidy means that the persons who can least afford to pay an increased price for those essential products are the ones who are going to be penalized the most.

The rest of us have to meet subsidies through taxation but that is a cheaper and for more equitable way of meeting the bill than it would be to remove the subsidies and pay increased prices.

In addition, each price is not in a separate pigeonhole with no relation to any other price. The structure is a delicately interrelated one, and when one price goes up and another goes up, before long all prices must go up and if you allow the basic necessities to skyrocket we have no right to ask that all prices in the country should not go up.

I believe, sirs, that about covers the things I had in mind.

Mr. ZIMMERMAN. We certainly do appreciate your statement.

Is there another witness?

STATEMENT OF EDITH HYSLOP, REPRESENTING THE AMERICAN ASSOCIATION OF UNIVERSITY WOMEN

Miss HYSLOP. I have nothing to add to the testimony of Mr. Warne and Mrs. Somers unless, of course, you wish to ask me questions.

I would like, however, to tell you about the organization which I represent and the length of time we have been studying consumer problems.

Mr. ZIMMERMAN. Will you tell us something about yourself and your association?

Miss HYSLOP. The American Association of University Women has a membership of more than 80,000 women in 933 communities throughout the country.

Consumer problems have been a part of our study program since 1935 and we have therefore been consistent supporters of price control,

which Mrs. Somers has covered so well from the point of view of women shoppers. I have nothing to add to that. You must realize I am sure that price control has been the very heart of our consumer interest since the enactment of the Emergency Price Control Act.

I would like to give one specific illustration of the work that our groups do on this subject and then if you have time and wish to ask any questions I will be glad to answer them.

Our branch in Milwaukee, Wis., became particularly interested in the housing problem and they undertook, in cooperation with other groups, to go out and investigate these very questions you have raised.

The Milwaukee people did a survey in their own area, and on the basis of this survey, Mrs. Genevive B. Hambley, social studies chairman, Wisconsin Division, A. A. U. W., was able to send us material we used in testifying on H. R. 4761, a bill to place price ceilings on old and new houses.

I want to tell you about this specifically because I do not feel that we have any right to come before you without bringing you something of our own experience.

Mrs. Hambley sent us examples of inflation in housing distributed over a range of price levels. I should like to submit for the record a quotation from Mrs. Hambley's letter covering those examples. (See exhibit 5, p. 2374.) This study does not represent a vague nebulous interest nor, at the other extreme, does it represent a consumer interest only. It represents the interest of people—

Mr. ZIMMERMAN. When I was home I was amazed at the awful scramble in a little town of 7,000 people, of people to buy houses and they were paying almost double the normal value of these houses in order to get a place in which to live.

And I had trouble myself keeping someone from buying my home while I was up here, and they knew I wasn't living in it very much. They felt like I ought to sell it. They were paying outlandish prices to get a house, and it was the only way the veteran or anyone else could get a house, and they had to move somewhere.

I want to say I appreciate the problem of housing. At this time I think you ladies are doing a fine job in giving that subject a lot of study and consideration.

Miss HYSLOP. I should like to state my agreement with Mrs. Somers when she said that there are specific inequities in price control at present which have to be taken care of. We in A. A. U. W. are not unsympathetic to that, because some of our members and some of their families suffer from such inequities. I want to say one thing about the composition of our membership. I think that they are essentially what you would call middle-income professional and business people.

Mr. ZIMMERMAN. Let me say on this subject that your committee has appeared before the Agriculture Committee many times and we know the fine work you ladies are doing. Particularly the Agriculture Committee is already familiar with the fine work you are doing, and you have very constructive programs. We are going to agree with whatever you were going to say about them.

Miss HYSLOP. Thank you.

Mr. ZIMMERMAN. You are doing great work.

Miss HYSLOP. In summary, I should like to emphasize the importance of price control to middle-income professional and business people—especially those with fixed salaries—and to say again that we do understand the problems of specific individuals and specific groups and that we would like to see legislation carried out with provision for regulation of inequities. Nevertheless, in representing the fixed-income group, we feel we must have a strong price-control program until the period of reconversion has been completed.

Mr. ZIMMERMAN. I hate price control, but I am convinced that we can't afford to let the specter of inflation hover over this country in the immediate months to follow. I feel that way about it. We can't afford to run the risk of having wide inflation.

Mr. MURDOCK. May I give this young woman evidence that the age of miracles is not past? I have had many letters and telegrams from real-estate dealers. I ran on to one during the Christmas season who said he was in favor of rent control and in favor of ceiling prices on buildings.

Miss HYSLOP. I realize that. We hear that from some of our own members.

Mr. ZIMMERMAN. Thank you for your statement, Miss Hyslop. We wish we had more time.

Do you have any other witnesses?

Mr. WARNE. That is the roster.

Mr. ZIMMERMAN. Our time is up, and we will have to adjourn.

Mr. WOLVERTON. I suggest, Mr. Chairman, in view of the fact our time is limited and we must be on the floor to vote on important legislation, that if any of these folks have additional testimony, or any of those who have come to testify and we are not able to hear them, their remarks should be placed in the record.

Mr. ZIMMERMAN. That may be done, or if anyone has a written prepared statement, they may insert that in the record. That will give all of you a chance to present your case as you would like to have it presented.

We are sorry we have no more time. We appreciate your presence here today.

Mrs. THOMPSON. On behalf of the American Home Economics Association, I wish to present a written statement.

Mr. ZIMMERMAN. That may be inserted in the record.

(The statement referred to follows:)

STATEMENT OF THE AMERICAN HOME ECONOMICS ASSOCIATION TO THE COLMER COMMITTEE ON JANUARY 31, 1946, PRESENTED BY MARGARET D. THOMPSON.

The American Home Economics Association recommends that price controls be extended until June 30, 1947, and rent controls until June 30, 1948, to forestall inflation.

We recommend that extension periods be not for less than a year. The present 6-month extension periods tend to encourage withholding by producers and overbuying by consumers—each expecting a jump in prices, as the end of price control is never far off.

We disapprove the addition of crippling amendments, such as elimination of cost-absorption principle.

Maintenance of necessary rent controls, especially if supplemented by effective home sales price controls, will help to prevent a catastrophic housing situation in which this association, with its interest in the home and family life, is deeply concerned.

The American Home Economics Association is particularly concerned in stability of consumer prices, including housing costs; because its members are leaders in promoting planned saving and spending by families—not only for their own happier home life but also as the basis of a sound national economy.

Mr. ZIMMERMAN. At this time the meeting is adjourned.

(Whereupon, at 12:05 p. m., the special committee adjourned.)

(The following was submitted for the record:)

EXHIBIT 1

WAR PRODUCTION BOARD,

Washington 25, D. C. May 10, 1945.

HON. WILLIAM M. COLMER,

*Chairman, Special Committee on Postwar Policy and Planning,
House of Representatives.*

DEAR MR. CHAIRMAN: In response to your request for a statement on Maritime Commission construction for foreign accounts, I have had a report prepared and enclose a copy of it for the use of your committee.

The ships which are now being made available for the World War shipping pool will, I understand, be owned by the foreign governments for whose account they are being constructed. Nevertheless, their construction is a part of the war shipping program which is the only reason for allotting the steel at this time. Their postwar utility to their owner cannot, in my judgment, be considered as affecting the determination to build them now for the present war shipping pool.

I trust that this information will be satisfactory to you.

Sincerely yours,

J. A. KRUG, *Chairman.*

MARITIME COMMISSION CONSTRUCTION FOR FOREIGN ACCOUNTS

The maritime program includes 130 ships being built for the Dutch and British Governments which are said to be for the World War shipping pool. Of the 86 cargo vessels, 30 are for the Dutch and 56 for the British. The 44 tankers are for the British.

The attached table shows the distribution of this construction by Government account, building yard, type of ship, total ships per yard, and schedule by quarters for 1945 and total for 1946.

The 30 Dutch cargo vessels were not included in the maritime program at the time of the first steel review of March 25. Although no steel was included for their construction in second quarter maritime allotments, a general hold-the-line policy was adopted providing for the reapplication of steel in the case of slippage to other new programs that might come along. The maritime program now shows 20 private coastal cargoes at Albina, Portland, Oreg., to be delivered in the last three quarters of 1945, and 10 private cargos at Sun, Chester, Pa., 3 to be delivered in the fourth quarter 1945 and 7 in 1946.

Approximately 13,000 tons of steel, squeezed out of second quarter Maritime Commission allotments, will be rolled for these ships in May and June. The Maritime Commission requirement for the third quarter 1945 includes approximately 18,600 tons of carbon steel for these ships.

With the exception of two N3-S-A2 delivered by Avondale during the first quarter and two C1-M-AV1, scheduled for delivery at Consolidated in the fourth quarter, all British cargo vessels will be delivered during the second and third quarters of this year. Approximately 75,000 tons of steel are required for the 30 C1-M-AV1, most of which will come out of second quarter allotments. All steel has gone out (approximately 50,000 tons) for the British N3's.

Of the 44 British tankers, 20 T1-M-BT2's are scheduled for delivery during the second and third quarters. All steel (approximately 40,000 tons) has gone out for these ships. The 24 T1-M-BK1's are scheduled for delivery in the fourth quarter. For these tankers, 4,000 tons of plate are coming out of the second quarter and 11,000 tons of steel out of the third quarter maritime allotments.

Ships for foreign account in the Maritime Commission program

| Government account | Yard | Type of ship | Total ships | Schedule | | | | |
|--|---|---------------------------|-------------|---------------|----------------|---------------|----------------|-------------|
| | | | | 1945 | | | | 1946 (year) |
| | | | | First quarter | Second quarter | Third quarter | Fourth quarter | |
| Dutch..... | Sun Shipbuilding and Drydock, Chester, Pa. Albina Engineering & Machine, Portland, Ore. | Private cargo..... | 10 | --- | --- | --- | 3 | 7 |
| | | Private coastal cargo.. | 20 | --- | 3 | 9 | 8 | --- |
| Total, Dutch cargo. | ----- | ----- | 30 | --- | 3 | 9 | 11 | 7 |
| British..... | Consolidated Steel, Los Angeles. Avondale Marine Ways, Westwego, La. Ingalls, Decatur, Ala. McCloskey, Tampa, Fla. | C1-M-AV1 cargo..... | 30 | --- | 6 | 22 | 2 | --- |
| | | N3-S-A2 coastal cargo. | 8 | 2 | 4 | 2 | --- | --- |
| | | do..... | 3 | --- | 3 | --- | --- | --- |
| | | do..... | 15 | --- | 7 | 8 | --- | --- |
| Total, British cargo. | ----- | ----- | 56 | 2 | 20 | 32 | 2 | --- |
| Total, Dutch and British cargo. | ----- | ----- | 86 | 2 | 23 | 41 | 13 | 7 |
| British..... | Avondale Marine Ways, Westwego, La. United Consolidated Pipe, Los Angeles. New England, Portland, Maine. J. A. Jones, Panama City, Fla. Todd, Houston, Tex. | T1-M-BK1 tankers... | 6 | --- | --- | --- | 6 | --- |
| | | do..... | 6 | --- | --- | --- | 6 | --- |
| | | do..... | 12 | --- | --- | --- | 12 | --- |
| | | T1-M-BT2 coastal tankers. | 6 | --- | 2 | 4 | --- | --- |
| | | do..... | 14 | --- | 8 | 6 | --- | --- |
| Total British tankers. | ----- | ----- | 44 | --- | 10 | 10 | 24 | --- |
| Total Dutch and British cargo and tankers. | ----- | ----- | 130 | 2 | 33 | 51 | 37 | 7 |

Prepared by Military Subcommittee, Production Readjustment Committee, Apr. 27, 1945.

EXHIBIT 2

PROPOSALS FOR TRIPARTITE PLANNING IN THE SHIPBUILDING INDUSTRY ON
RECONVERSION-POSTWAR EMPLOYMENT PROBLEMS

(The Industrial Union of Marine and Shipbuilding Workers of America, CIO,
John Green, president)

INTRODUCTION

It has been generally recognized by various committees studying the postwar economic policy of the United States, that the basis of our future national prosperity will be our foreign trade.

The House Special Committee on Postwar Economic Policy and Planning has submitted its sixth report to Congress on the problems of foreign trade. This report can be summarized as follows:

"In the postwar period, our private foreign investments, with proper encouragement, might amount to as much as \$2,000,000,000 per year. To encourage the free flow of investment funds abroad, the committee recommends the following measures:

"(1) The proposed International Bank for Reconstruction and Development should be established as an operating agency as soon as practicable. This bank,

with its power to make loans and guarantee private loans for broad development projects, and to spread the risks of such loans among the participating nations, would assist materially in reconstruction and in industrialization of underdeveloped regions.

"(2) The resources of the Export-Import Bank should be increased. With an increase of its lending power—this is of particular interest to the United States—the American lending agency could make many developmental loans which would be beneficial to our international position and would in no sense compete either with the proposed International Bank or with private lending agencies.

"(3) The restrictions which the Johnson Act places upon our lending activities should be removed.

"(4) A clear understanding concerning settlement of lend-lease obligations should be reached promptly after the war.

"Our postwar international monetary system must be free of restrictive controls. With this aim in view, the committee makes the following recommendations:

"(1) Exchange rates between countries should be stabilized, by agreement, at levels which, as far as possible, will create a balanced condition in each country's postwar foreign-exchange market.

"(2) To enable the participating nations to maintain these exchange rates in the face of temporary deficits in their foreign-exchange markets, an international reserve of foreign currencies should be established and each country should be permitted, subject to proper safeguards, to purchase foreign currencies from this reserve.

"(3) In cases where changes in the par values of certain currencies become necessary, these changes should be made cooperatively, through an international agency established for the purpose, rather than by arbitrary unilateral action.

"As a means of relaxing restrictions upon trade throughout the world, the committee believes that an international conference should be called as soon as practicable, to establish a general policy of reducing barriers. The immediate establishment of such a policy would be of enormous assistance to businessmen both at home and abroad in making postwar plans. The conference should consider not only reduction of tariffs, but also such trade controls as import quotas, export subsidies, exchange controls, and other forms of state interference with the movement of goods between countries.

"The policy of relaxing trade barriers can be further promoted by an extension of the reciprocal trade agreements act, which is due to expire June 12, 1945. Reciprocal agreements have been useful in expanding world markets both for our own products and for the goods of other nations, and the committee believes that the method should be continued. At the same time, consideration should be given to proposals to increase the authority of our negotiators to reduce tariff rates on particular commodities.

"The removal of direct trade controls may present special problems for industries which suffer from chronic excess capacity. For these industries, commodity agreements to allocate export quotas among countries have been suggested. The committee believes that, except as temporary measures, such agreements are economically unsound. Moreover, even temporary agreements should have adequate safeguards against monopolistic abuse, and should provide for representation of importing countries as well as exporting countries.

"Buffer stock plans, which have been suggested for stabilizing raw material and agricultural prices, present so many problems that the committee believes they should not be recommended without further study.

"The policy of removing governmental restrictions upon trade between nations is also applicable to trade restrictions created by private agreements. Private agreements in restraint of international trade have the same undesirable consequences as governmental trade barriers. The committee believes, therefore, that such private restrictions should be eliminated by the following measures:

"(1) Certain business practices, such as the fixing of prices in world markets, division of markets, allocation of export quotas, etc., should be forbidden by international convention.

"(2) Nonrestrictive private agreements for such purposes as disseminating technical information, establishing quality standards, etc., should be registered with an international organization. This organization would be charged with the responsibility of examining all private agreements to insure that none of them involves the restrictive practices outlawed by international convention.

"In addition to the commercial policies recommended in this report, certain changes in administrative procedure will provide material assistance to exporters and importers, particularly small operators. Coordination of the foreign-market information which the government provides traders, simplification of customs

regulations, provision of additional foreign-trade zones, and termination, as soon as practicable, of emergency wartime controls would all provide substantial assistance to small businessmen."

It is interesting to note that the Industrial Union of Marine and Shipbuilding Workers of America in its tenth national convention in Atlantic City in September of 1944, stated the following:

"Our industry must be interested in unlimited and unrestricted free trade. There must be a no-tariff policy agreed upon by every country in the world. A free movement of goods will mean increased trade and shipping. With free trade the various countries of the world can develop their own particular industries and resources, specializing, and not aiming at complete self-sufficiency. Specialization of the energies of a people spells a large volume of international trade and shipping. Self-sufficiency spells a low volume of international trade and shipping. In the former case the shipbuilding industry can thrive, prosper, and expand. In the latter case, the shipbuilding industry can only barely exist, face depression, and be restricted.

"In much the same way, the shipbuilding industry must encourage a sound monetary policy which will offer both stability and room for expansion and flexibility in case of emergency. It must encourage the poorer countries to industrialize and to trade. It must guard against depression possibilities.

"It is to the interests of the union and the industry that a shipping and shipbuilding conference be called, to allocate shipping and shipbuilding quotas to the various countries, and to investigate the possibilities of trade expansion.

"The position of the union can thus be stated. A world that restricts trade needs no shipping. In such a world, the shipbuilding industry will perish. A world that encourages and expands trade needs shipping, and in such a world shipbuilding can and will flourish, prosper, and expand.

"When this happens, the shipbuilding worker will be assured of being able to make a decent living."

We believe that the problem of the postwar shipbuilding industry is allied to that of the postwar merchant fleet and foreign trade. Even the House special committee agrees that the maintenance of a shipbuilding industry in the times of peace is to be in the interest of national security. The committee also recognizes that a well managed fleet can substantially contribute to the improvement of our commercial relations with other nations.

In view of the importance of this program the union thinks it necessary to propose the creation of a tripartite committee of Government labor and management to consider postwar planning for this industry.

In 1941 under the leadership of Franklin D. Roosevelt the first experiment in the stabilization of an industry was started by the creation of the Shipbuilding Stabilization Committee. This experiment was given the fullest endorsement and the unqualified support of our union. We now believe that the time has come for this committee not only to consider the stabilization of the industry but the future of the industry. If this committee cannot assume this responsibility it should be reconstituted in such fashion that it can assume such responsibilities. Moreover, the union believes it imperative that a representative of the State Department be delegated to assist whatever committee be formed to link the problems of the industry with the foreign policy of the United States.

I

The problems of the shipbuilding and repair industry cannot be considered outside the general frame of our postwar foreign policy. They can also not be considered outside the general frame of the tripartite organization of the industry itself.

For example: The committee on postwar planning must consider a salient fact in the building of a merchant marine—the Japanese merchant fleet was the largest fleet in Pacific trade. After the conclusion of the present war with Japan this fleet will be nonexistent. The American Government will have to develop a fleet suitable for Pacific trade in order to allow this trade and the required rehabilitation of China to continue.

The passenger fleet of the world has been almost completely decimated. Moreover, the maintenance of large passenger vessels is a military necessity for the merchant marine. The country best able to build such vessels at maximum efficiency is the United States.

Most of the merchant marine of Europe is now deep in the Atlantic Ocean, or is in unfit condition for future merchant trade due to the exigencies of war transport. Previous maritime nations will not be satisfied to use our slow

liberty ships, even at a discount. These nations might have their own national economy and new merchant fleet.

Can Holland build vessels in its shipyards when there are no more shipyards in the country and when it will take Holland 10 years to repair internal damages alone?

The merchant marine of the United States, itself, will need further construction of different types of vessels to meet the postwar requirements of domestic and foreign trade. We have been neglecting the building of ships suitable for deep sea oil carrying, shallow draft vessels necessary for river navigation, refrigerated vessels necessary for Central and South American trade, fishing craft for the Newfoundland and Alaskan banks, the Great Lakes transport barge fleet, tugboats, and our general passenger service.

The United States Government has an investment in permanent shipbuilding facilities and installations of almost a billion and one-half dollars (\$250,000,000 in IUMSWA yards alone), and productive utilization of these facilities will return to the Government its investment. Furthermore, as a Capozelli subcommittee on shipyards profits has shown, a major share of these inventions rests with companies, new in the shipbuilding industry, who will leave the industry at the cessation of the war, with huge profits and no investment responsibilities.

The Government also has an investment in housing in and around the shipyard areas, which will become useless if there is no shipbuilding.

II

These two major interests of the Government in shipbuilding make it imperative that the Government adopt the following program:

The Government must completely rehabilitate and modernize its Navy. For reasons of security alone, we should never again allow the naval building stagnation prevalent after the first World War. An adequate and modern Navy is necessary insurance that this country will not again be placed at the mercy of the forces of Fascism.

We must take full advantage of the technological improvements that have been discovered during this war—and make sure that our vessels are corrected accordingly.

IUMSWA is not here proposing an armaments race against the world—but until the time the nations are sufficiently liberal to allow an international police force, the United Nations will be guaranteeing the peace on this earth.

Here we must introduce the topic of the recent cut-back in proposed naval shipbuilding. The IUMSWA believes that the effect of this cut-back on our postwar Navy will be disastrous. We must for our own protection have the most effective Navy we can possibly build. A good many of these cut-back vessels were experimental, yet we must remember that battleship—which was ripped to pieces, after the sinking of the *Prince of Wales* in Singapore, and rebuilt—was an experiment which had never seen the outside of a blueprint. If the new watertight hull design had not been introduced, we would have lost our fleet in the beginning of the war. In like fashion the present fleet, unless continuous experiment is made, will be obsolete in the next 5 years.

Therefore, we think it important that the naval building program be allowed to be continued on an experimental basis.

III

The postwar health of the shipbuilding and ship repair industry is dependent upon the continuous employment of skilled craftsmen in well established modern shipyards. The union believes that the problem of continuous employment is the most important problem for the benefit of the worker in this period.

Therefore, the union will propose to the Shipbuilding Stabilization Committee that a technical subcommittee of Government, management and labor be set up to consider the question of the guaranteed annual wage.

The principle of the guaranteed annual wage was first brought to the attention of the United States Government in the matter of the steel industry and the United Steelworkers of America case before the National War Labor Board. The National War Labor Board, in its decision on the steel case on November 25, 1944, stated that "in the present state of the country's information on the subject (of guaranteed annual wages) the Board is not prepared in this case or in other dispute cases to impose such guarantees by order," although such plans worked out by collective bargaining would be approved. The Board, however, recommended to the President in a separate report:

"(1) That the whole question of guaranteed wage plans, and the possibility of their future development in American industries as an aid in the stabilization

of employment and the regularization of production, should now be comprehensively studied on a national scale; (2) that such study should be conducted by a special appointed commission charged with the duty of examining into the experience which industry and labor have thus far had with these plans, and reporting the facts for the benefit of the country, together with recommendations regarding any further steps in this direction which may seem practical and desirable; (3) that such a body would be best able to perform its nationally important tasks if created independently of the War Labor Board by the President; and (4) that the President appoint a commission for these purposes."

(Voted unanimously.)

Thereupon, the President of the United States, in conformity with the recommendation of the National War Labor Board appointed a special committee to study the matter of the guaranteed annual wage. The Chairman of the Advisory Committee to the President on the Guaranteed Annual Wage is the former governor of South Carolina, Max Gardner. The CIO member of this Advisory Committee is Philip Murray; the AFL member on this Committee is William Green.

The Advisory Committee met and established a Technical Advisory Committee to represent it.

This Committee will not specifically be able to survey application of specific guaranteed annual wage plans to any single industry. Management and labor are the only groups which can formulate workable and concrete applications of the principle of the guaranteed annual wage to a particular industry.

The shipbuilding industry, because of its wartime growth and because of peacetime contraction, also because of its division into two component types of industry, building, and repair, presents a difficult and unique problem in any consideration of guaranteed annual wage. The Government agency presently set up in a form to amass data for any consideration of the guaranteed annual wage in this industry is the Shipbuilding Stabilization Division of the War Production Board or the Committee itself, inasmuch as it includes representation of the procurement agencies.

The problem of the guaranteed annual wage for our industry cannot be solved yard by yard. Because of the existence of large chains within the industry, such as Bethlehem and Todd, and also because of the existence of stabilization within the industry, any single discussion of the annual wage with an individual employer would serve to unstabilize the industry.

One of the main postwar problems of our industry, which has been recognized by Congress and by the procurement agencies, is the problem of keeping a force of skilled shipyard workers on the job. This union believes that the application of a guaranteed annual wage to the shipbuilding industry will definitely solve this problem. Naturally, other necessary committant solutions will present themselves at the same time and these should also be considered by any subcommittee at the time that the guaranteed annual wage is being studied.

The Shipbuilding Stabilization Committee is too cumbersome a body to undertake as a full committee the study of the guaranteed annual wage. A solution of this would be for the Committee to establish a technical subcommittee under the guidance of a Committee member as chairman, to study the guaranteed annual wage. This technical subcommittee should be in the fullest sense of the word a working committee—one that will be able to devote a good portion of its time to assembling data and issuing a preliminary report. This working committee should not only study the previous application of the guaranteed annual wage in other industry, in order to present alternative plans which might be applicable to our industry, but should also study projected data on employment, wages, pay rolls, etc., in order that the full committee will be able to determine the applicability of any alternative group of plans to the industry.

The technical advisory committee will probably not have to institute any new surveys. Data is available in the files of the Shipbuilding Stabilization Division of the Bureau of Labor Statistics, and of the procurement agencies, which should be sufficient, together with the information advanced by covered yards in our industry, to compile a workable collection of factual information on which the Committee can base any of its decisions.

Naturally, the technical subcommittee should not be responsible for the formulation of a definite plan. This should be left either to collective bargaining between labor and industry, or to the full committee.

There is no doubt that if the Shipbuilding Stabilization Committee should actually be willing to undertake a study of this question, something could be worked out, which although probably not perfect, would be as good for the industry as stabilization was in 1941. However, I must point out that this problem is one which cannot be worked out if either party is already conditioned. It must be approached with an open mind on the part of industry. Industry must be willing

to try a new departure and to consider such new departure in the light of plain factual information, without any of its accustomed prejudices.

IV

In addition to the above suggestions we must have a regular scheduling of work on a tripartite basis. Labor must know where work is going. It has been successfully proven by the employment crisis on the Pacific coast that workers will not leave their established homes, families and do not want to lose established seniority in order to take short employment at higher wages. They are willing to take a chance in the community where they are already located.

We did not believe that this postwar development of the shipbuilding industry must be allocated in such fashion that we will not hit the constantly recurrent crisis, we have been facing during all of our war production.

We must keep a skilled nucleus of shipyard workers in the shipbuilding industry. This nucleus must have continuous employment or otherwise, in a time of maximum production in order consumer goods industry, we will have a loss of trained workers from this industry as we had after the First World War. This cannot be allowed to happen again.

At the beginning of the national emergency the officers of this union proposed to the procurement agencies a tripartite discussion of the allocation of contracts: so that labor, facilities, and materials would be used in a regulated and orderly fashion. This proposal, although received with enthusiasm, was never put into practice.

Now that we are faced with a contraction of the industry at a time of crisis, the lack of orderly allocation is beginning to make itself felt, particularly on the west coast. The repair yards and construction yards of the Pacific are swamped with work and the workers in the shipyards where production is now being curtailed will not go to the west coast.

A much more detailed allocation of contracts and planned construction of necessary facilities would have obviated this crisis.

In 1 month the Navy has taken a number of contracts away from one shipyard and given them to three other yards on the basis of urgency. We are not saying that this was not necessary at the time, but the point we are making is why did it ever become necessary? The peculiar part of the entire situation is that the yard from which contracts were removed is cutting down its employment and that the yards to which the contracts were given will have to rehire more work. Obviously, either the contracts should never have been given to the original yard, or it should not have been allowed to curtail employment.

The entire allocation of contracts after the war will decide the future of our industry. Shipyard labor and its leadership has proven itself intelligent enough to recognize the exigencies of production and the requirement for a skilled nucleus. We know very well each particular yard's economic or noneconomic operation. Many times we have been ones to force action. Why then should we not be represented upon any group which will decide the future of contracts in our industry?

EXHIBIT 3

SUMMARY OF UNION PROPOSALS OUTLINED TO ROBERT NATHAN

1. The basis of our future national prosperity will be our foreign trade. Our industry must be interested in unlimited and unrestricted free trade, since the free movement of goods will mean increased shipping. The countries of the world should be encouraged to specialize in their own particular industries and resources, rather than aiming at complete self-sufficiency, in order that the shipbuilding industry can thrive.

2. The shipbuilding industry must encourage a sound monetary policy which will offer both stability and room for expansion, and flexibility in case of emergency.

3. A shipping and shipbuilding conference should be called to allocate shipping and shipbuilding quotas to the various countries, and to investigate the possibilities of trade expansion.

4. Maintenance of the shipbuilding industry in peacetime is in the interest of national security, and a well-managed fleet can contribute to the improvement of our commercial relations with other nations.

5. The union proposes the creation of a tripartite committee of Government, labor, and management to consider postwar planning for this industry.

6. Such a committee for the stabilization of the industry was set up under Roosevelt's leadership, the Shipbuilding Stabilization Committee, which should

now consider the future of the industry. If it cannot assume this responsibility, it should be reconstituted.

7. A representative of the State Department should be delegated to assist the committee and link the problems of the industry with the foreign policy of the United States.

8. The Government itself has two major interests in shipbuilding, its investments in permanent shipbuilding facilities and in housing in and around the shipyard areas. Only the productive utilization of these facilities will return to the Government its investment. The Government should therefore adopt the following program:

(a) Completely rehabilitate and modernize its Navy, for reasons of security.

(b) Take advantage of technological improvements discovered during the war, and make sure our vessels are corrected accordingly.

9. Postwar shipbuilding and ship repair is dependent upon the continuous employment of skilled craftsmen in well-established modern shipyards. Therefore the union will propose to the Shipbuilding Stabilization Committee that a technical subcommittee of Government, management, and labor be set up to consider the question of the guaranteed annual wage. The committee set up by the President for such a study will not specifically be able to survey the application of this plan to any single industry, and the shipbuilding industry, because of its division into building and repair, presents further difficult and unique problems in any consideration of the guaranteed annual wage.

10. The Shipbuilding Stabilization Committee is itself too cumbersome a body to undertake as a full committee this study, and therefore a technical subcommittee should be set up to make a complete survey of plans in other industrial, employment data, wages, etc., so that the full committee will be able to determine the applicability of any alternative group of plans to the industry.

11. The technical subcommittee should not be responsible for the formulation of a definite plan. This should be left either to collective bargaining between labor and industry, or to the full committee.

12. Shipyard labor and its leadership should be represented on any group which will decide the future of contracts in our industry. At the beginning of the national emergency the union proposed to the procurement agencies a tripartite discussion of the allocation of contracts, so that labor, facilities and materials would be used in a regulated and orderly fashion. This was never put into practice, and the lack of orderly allocation is beginning to make itself felt, particularly on the west coast.

EXHIBIT 4

OFFICE OF PRICE ADMINISTRATION,
Washington, D. C., December 14, 1945.

Mr. EDWIN B. GEORGE,

Consultant to Special Committee of the House on

Postwar Economic Policy and Planning, Washington, D. C.

DEAR MR. GEORGE: On looking back over my testimony before the Colmer committee Thursday morning, I believe that you and I were talking at cross purposes on the question you asked me concerning the rate at which retailing expenses were likely to increase. As I recall my testimony, I expressed the opinion that the rate of expense would not rise appreciably because of sustained volume, whereas you were inquiring how rapidly I expected gross expenditures to increase. It is true that if present volumes are merely maintained, the economies deriving from volume will likewise experience little change and will provide no new cushion for absorbing any price increases we find it necessary to grant to manufacturers. As I stated at the hearing, I recognized that some types of retail expenditures which dropped off drastically during the war can now be expected to revive. Additional sales help, restoration of delivery service, reinstatement of advertising budgets and credit services, are among them. To the extent that stores return to old rates of expenditure on these and similar operating items, assuming unchanged volume and prices, expense rates may well increase in comparison with 1944 profit results. And I did say that we were assuming in my store that in 1946, if 1944 volume persisted, our expense rate would be 29.5, which is two points above what it was in 1944. The point that I was making was that the rate of recovery in such outlays would not be rapid, that they would not for a long time return to prewar levels, and that when they do, price control will be over.

In the meantime retailers have throughout the war been free of the impairments of profit that normally result from clearance sales and mark-downs. These practices will also be revived in time, but again I do not think it will happen

soon on any substantial scale. If I am right in these assumptions, the spread between initial mark-up and over-all expense rate of retail establishments will for some months at least remain substantially above prewar levels and will to that extent make it possible for them to absorb the moderate increases in cost of goods that we expect to allow.

The point that I want to make clear for the record is that a mere retention of present volume could not prevent gradually increasing expense rates from affecting profits. The viewpoint on which I wish to stand, however, is that as long as we are in a strong seller's market, that effect will not be important, certainly not on a scale entitling us to abandon the principle that retailers should share with manufacturers and wholesalers the small amount of new cost absorption that will be necessary under our present procedures.

Sincerely yours,

JEROME M. NEY,

Deputy Administrator for Price.

EXHIBIT 5

EXCERPTS FROM A LETTER ON INFLATION IN THE HOUSING MARKET IN MILWAUKEE, WIS.

Mrs. Genevieve B. Hambley, social studies chairman, Wisconsin division, American Association of University Women, in a letter to Edith Hyslop of the national staff, A. A. U. W., on December 11, 1945, furnished the following examples of the need in Milwaukee for H. R. 4761, a bill to place price ceilings on old and new houses. She says of these examples, "All the sources are very reliable. I left out those which would be hard to verify."

"From OPA: A small frame house bought from builder about four years ago, poorly located, no garage, cost \$5,500, sold last week at \$9,500; another small bungalow, cost \$4,500 about 4 years ago, sold at \$10,000; another 4-room prefabricated house, very small, bought at \$5,500 3 years ago, sold within the month for \$8,700. Examples such as these could be given indefinitely according to OPA.

"From the FHA Milwaukee area office: Construction costs are up 36 percent. A great many, a very great many, of the applications for veterans' loans on existing homes are turned down due to the fact that the price asked is too far out of line with the value.

"From an alderman: A great number of war-housing units built under the \$6,000 ceiling in his ward have been resold since the ceilings were taken off for \$7,500 to \$9,000.

"Two examples given me by a progressive real estate broker: A 4-room frame house bought at \$4,400 new from the builder 4 years ago sold in June for \$6,800. In our blighted area, a broker acting as a purchaser paid \$3,500 for a house and sold it the next day as an agent for \$4,700.

"From a newspaper editor: A house bought a year ago at \$6,500 sold last month at \$10,000.

"Milwaukee is having a terrific time like all other cities trying to house its veterans. The veteran who is coming back and being absorbed into industry at beginners' rates of pay—many of them were too young to have had experience before—are getting minimum wages. At Allis-Chalmers, the largest plant in Wisconsin, these wages are 62 plus 12 cents an hour (the 12 cents is the bonus). They have been working a 40-hour week. When they are forced to buy a home to get any place to live it is impossible for them to get a home in any relation to their income. There is no such thing as a house for rent. They and the people who are forced to vacate are certainly being victimized.

"I think the bill is too generous in its allowance now but it is a means of preventing speculative reselling which is fast approaching a national scandal."

Mrs. Hambley is chairman of the Joint Action Committee for Better Housing in Milwaukee which is composed of the following groups: Wisconsin Division of the American Association of University Women, Milwaukee County League of Women Voters, Milwaukee Woman's Club, Council of Churches, Milwaukee County Council of Church Women, Milwaukee Urban League, Wisconsin State Conference of Social Legislation, National Order of St. Luke, Booker T. Washington YMCA, YWCA, National Association for Advancement of Colored People, Upper 3rd Street Commercial Association, Wisconsin Home Economics Association, National Council of Jewish Women, Milwaukee County Industrial Union, CIO, Milwaukee Women's Service Club, Interracial Federation.

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